

**MONTHLY ECONOMIC REVIEW  
SEPTEMBER 2012**

The Monthly Economic Review, prepared by the Central Bank of Kenya starting with the June 1997 edition, is available on the internet at:

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## **CONTENTS**

<b>Overview .....</b>	<b>2</b>
<b>1. Trends in Various Measures of Inflation .....</b>	<b>7</b>
<b>2. Developments in Money, Credit and Interest Rates .....</b>	<b>10</b>
<b>3. Performance of the Real Sector .....</b>	<b>15</b>
<b>4. Developments in the Balance of Payments and Exchange Rates .....</b>	<b>22</b>
<b>5. Developments in the Banking Sector.....</b>	<b>28</b>
<b>6. Government Budget Performance .....</b>	<b>34</b>
<b>7. Developments in Public Debt .....</b>	<b>38</b>
<b>8. Activity in the Stock Market.....</b>	<b>44</b>
<b>9. Balance Sheet of the Central Bank of Kenya .....</b>	<b>46</b>

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## OVERVIEW

**Introduction** This Monthly Economic Review highlights recent economic developments through September 2012. This includes developments in inflation, money, credit and interest rates, the real sector, balance of payments and exchange rates. It also highlights developments in the banking sector, Government budgetary operations, public debt and the stock market.

**Inflation** Overall 12-month inflation eased further from 6.1 percent in August 2012 to 5.3 percent in September 2012 reflecting further easing in food and fuel inflation. Non-food, non-fuel inflation also declined from 7.8 percent in August 2012 to 7.2 percent in September 2012 while annual average inflation declined from 14.3 percent in August 2012 to 13.3 percent in September 2012.

**Money Supply** Growth in broad money supply, M3, decelerated to 12.5 percent in the year to September 2012 from 19.3 percent in the year to September 2011 and was within the 15.0 percent target for September 2012. This reflected slowdown in the growth of Net Domestic Assets (NDA) of the banking sector, and in particular credit to the private sector.

**Interest Rates** The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) to 13.0 percent in the month of September 2012 from 16.5 percent in August 2012, following further easing of inflation and stability of the exchange rate. The weighted average interbank rate decreased to 7.02 percent in September 2012 from 8.97 percent in August 2012.

**Real GDP Growth** The economy grew at 4.4 percent in 2011 compared with 5.8 percent in 2010 and 2.7 percent in 2009. The growth momentum slowed in the first and second quarters of 2011 but improved beginning the third quarter of 2011. Real GDP growth in the June, September and December quarters of 2011 is estimated at 3.4 percent, 4.0 percent and 4.6 percent, respectively. Real GDP grew by 3.3 percent in the second quarter of 2012 compared with 3.5 percent in the second quarter of 2011.

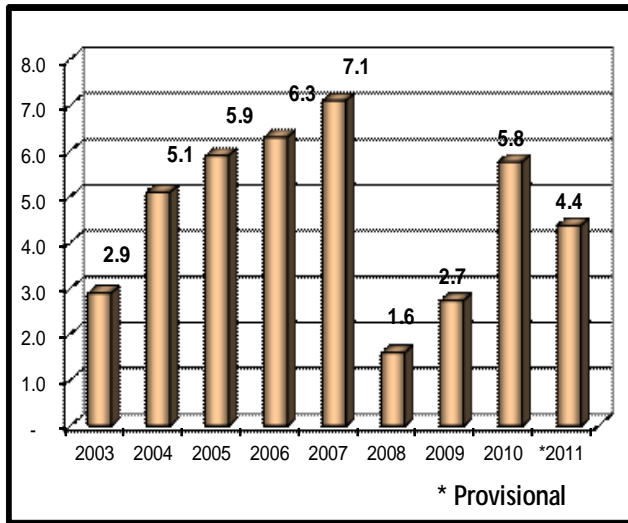
**Balance of Payments** Kenya's overall Balance of Payments position improved from a deficit of US\$ 220 million in the year to September 2011 to a surplus of US\$ 1,244 million in the year to September 2012. This improvement in the balance of payments resulted from increased financial inflows into the capital and financial account that more than financed the current account deficit.

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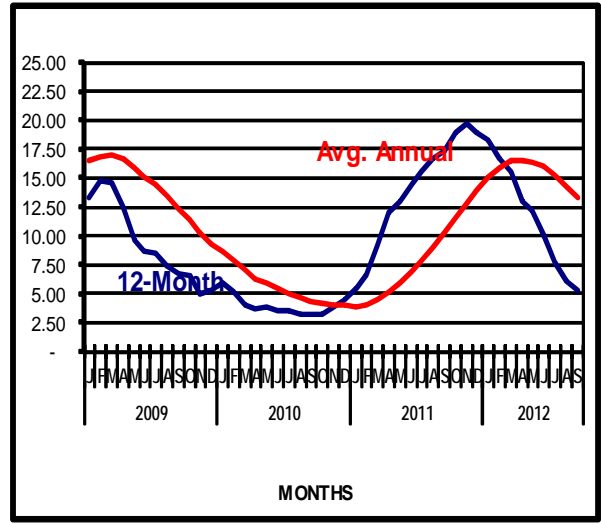
<b>Exchange Rates</b>	The Kenya Shilling depreciated against all major world currencies in September 2012.
<b>Banking Sector Developments</b>	During the period ended September 2012, the Kenyan Banking sector registered improved growth in assets driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2011.
<b>Government Budgetary Performance</b>	The central government budgetary operations for the first quarter of the fiscal year 2012/13 resulted in a deficit of Ksh 59.0 billion on commitment basis compared with a deficit of Ksh 20.4 billion on commitment basis for a similar period of the previous fiscal year. This was higher than the Ksh 53.2 billion (1.4 percent of GDP) programmed target for the period.
<b>Public Debt</b>	Kenya's public and publicly guaranteed debt increased by Ksh 101.3 billion to Ksh 1,724.7 billion at the end of September 2012 from Ksh 1,623.4 billion at the end of June 2012. The total debt-to-GDP ratio declined to 44.6 percent in September 2012 from 49.3 percent in June 2012. Similarly, domestic debt to GDP and external debt to GDP ratios declined from 26.1 percent and 23.2 percent in June 2012 to 23.9 percent and 20.8 percent, respectively, in September 2012. Domestic debt reached Ksh 922.2 billion, and accounted for 53.5 percent of total debt in September 2012.
<b>Stock Market</b>	Stock market performance rallied strongly in September 2012, with gains in all four equity indices; NSE 20 Share, NASI, FTSE NSE Kenya 15 and FTSE NSE Kenya 25. Market capitalization added Ksh 26.6 billion from August 2012 level, while equity turnover rose on account of higher equities supply amid rising prices. The net foreign investor participation maintained an upward trend as well as the bonds market activity.

# SELECTED ECONOMIC PERFORMANCE INDICATORS

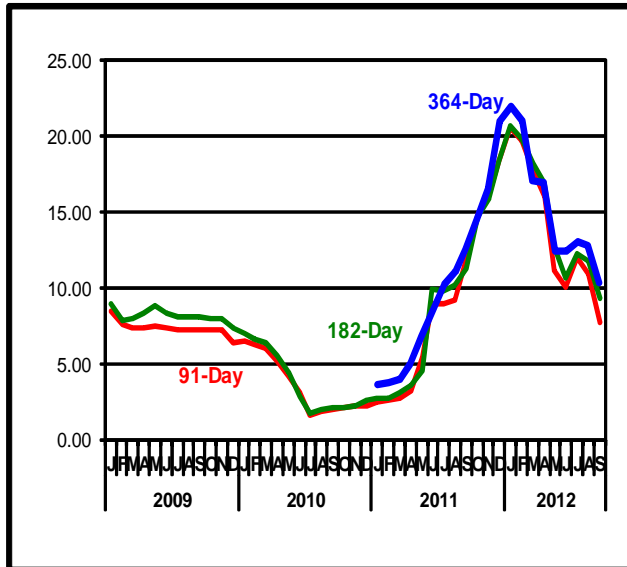
## Real GDP Growth (%)



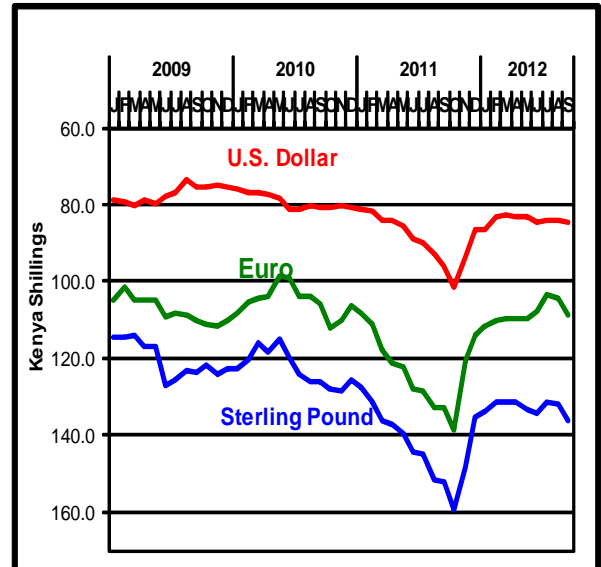
## Inflation (%)



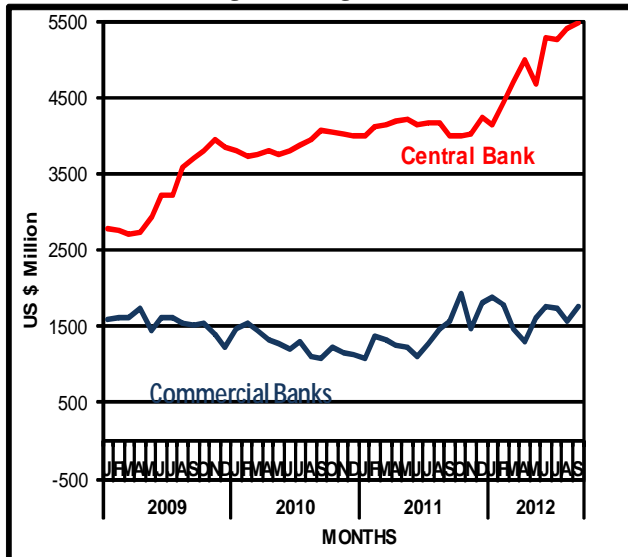
## Treasury Bill Rates (%)



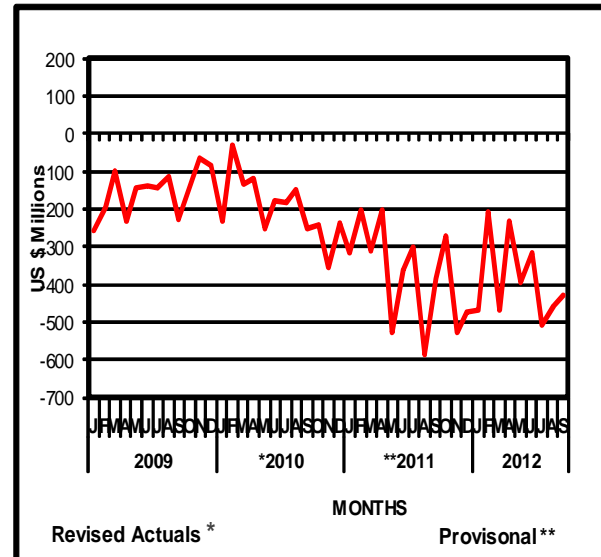
## Kenya Shilling Exchange Rate



## Foreign Exchange Reserves



## Current Account Balance



# SELECTED ANNUAL ECONOMIC INDICATORS

INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
<b>1. POPULATION*</b>												
People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30	38.60	39.80	NA
Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96	0.78	3.11	NA
<b>2. NATIONAL ACCOUNTS**</b>												
Gross value added at basic prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,625	1,444,113	1,616,010	1,858,371	2,090,948	2,238,630	2,671,285
GDP at Market Prices (Ksh m):												
At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,565	1,833,511	2,107,589	2,366,984	2,549,825	3,024,782
At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,668	1,109,541	1,175,133	1,249,470	1,336,846	1,357,263	1,394,387	1,474,763	1,539,306
Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.3	7.0	1.5	2.7	5.8	4.4
Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,480	34,574	37,316	36,933	36,962	38,332	38,925
<b>3. GROSS NATIONAL SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	12.9	10.0	8.1	10.1	12.2	13.4	14.8	13.9	15.9	12.9	11.3	13.2
<b>4. GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)<sup>3</sup></b>	6.7	4.4	4.0	4.8	6.6	5.7	6.8	6.1	8.2	5.5	4.1	4.2
<b>5. GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)</b>	17.4	18.8	14.9	16.4	17.1	16.9	17.9	19.0	19.2	19.9	19.8	20.9
<b>6. OVERALL INFLATION BASE PERIOD= FEB 2009</b>												
Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27	9.24	3.96	14.02
12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83	5.32	4.51	18.93
<b>7. STOCK MARKET</b>												
Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18	3,247.44	4,432.60	3,205.02
Trade Turnover Ratio (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29	0.64	0.99	0.46
<b>8. GOVERNMENT BUDGET (Ksh bn)***</b>												
Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67	511.36	614.53	679.533
Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84	621.91	791.79	817.09
Budget Deficit (-) / Surplus (+) incl. Grants (commitment basis)	7.57	(16.53)	(22.32)	(27.11)	(18.62)	5.72	(37.44)	(21.61)	(77.17)	(110.55)	(177.26)	(137.56)
Budget Deficit (% of GDP)	0.81	(1.66)	(2.19)	(2.51)	(0.97)	0.08	(2.74)	(1.02)	(3.93)	(4.94)	(7.21)	(4.98)
<b>9. MONEY AND CREDIT (Ksh bn)(end period)</b>												
Liquidity (L) <sup>1</sup>	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,091.93	1,280.44	1,558.16	1,854.93
Money Supply (M3) <sup>2</sup>	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.05	1,045.66	1,271.64	1,514.15
Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59	181.96	222.63	255.01
Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	815.52	955.82	1,188.40	1,505.13
Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32	205.07	277.78	311.58
Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	660.20	750.75	910.62	1,193.55
<b>10. BALANCE OF PAYMENTS (US\$ m)**</b>												
Overall Balance	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	(469.00)	780.53	163.40	(42.88)
Current Account	(240.00)	(385.00)	(117.69)	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00	-1,609.28	-2,511.91	-3,330.41
Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00	2,389.81	2,675.30	3,287.53
<b>11. FOREIGN EXCHANGE RESERVES (US\$ m) End Period</b>	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78	5,064.03	5,122.52	6,044.78
Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46	3,847.39	4,001.68	4,247.60
Months of imports****	2.8	3.2	3.3	4.4	4.1	4.0	3.9	4.8	3.4	4.1	3.9	3.7
Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32	1,216.63	1,120.84	1,797.12
<b>12. PUBLIC DEBT (US\$ bn) End Period***</b>	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46	13.66	14.96	16.60
Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66	6.72	8.06	8.51
As % of GDP	24.09	22.25	23.11	26.81	25.32	23.40	23.18	23.56	21.15	21.67	25.90	27.78
External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80	6.94	6.90	8.09
As % of GDP	42.21	40.13	36.99	37.72	36.64	32.21	27.93	23.09	21.61	22.36	22.20	26.43
<b>13. EXCHANGE RATE (Ksh/US\$) (Annual Average)</b>	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18	77.35	79.23	88.81

\* Provisional.

\*\* Revised to reflect data in Economic Survey 2010.

\*\*\* Fiscal year to June 30th.

\*\*\*\* Figures in parentheses refer to official reserves in terms of average of current year of imports of goods and non-factor services.

<sup>1</sup> Previously M3X

<sup>2</sup> Previously M3X

<sup>3</sup> Revised

NA Not available

**Sources: Kenya National Bureau of Statistics, Ministry of Finance, Central Bank of Kenya and Nairobi Stock Exchange**

# SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2011				2012			
	Sep	Oct	Nov	Dec	Jun	Jul	Aug	Sep
<b>1. INFLATION (%)</b>								
CPI	125.23	127.20	129.13	130.09	133.06	131.92	131.51	131.89
Overall Inflation								
12-month overall inflation	17.32	18.91	19.72	18.93	10.05	7.74	6.09	5.32
Average annual overall inflation	10.18	11.49	12.82	14.02	15.97	15.27	14.33	13.29
<b>2. INTEREST RATES (%)</b>								
91-day Treasury bill interest rate	11.93	14.80	16.14	18.30	10.09	11.95	10.9	7.8
Overdraft interest rate	14.64	14.87	18.67	20.20	20.36	19.96	20.3	19.8
<b>3. STOCK MARKET</b>								
Nairobi Stock Exchange Price Index	3,284.06	3,507.34	3,155.46	3,205.02	3,703.94	3,832.42	3,865.76	3,972.03
Turnover Ratio (%)	0.79	0.78	0.54	0.46	0.52	0.51	0.44	0.60
<b>4. GOVERNMENT BUDGET* (Ksh bn.)</b>								
Revenue \$ Grants	159.25	210.31	265.47	345.66	734.43	46.27	103.88	173.32
Expenses	179.63	248.30	320.58	430.93	915.89	50.03	146.19	232.29
Budget Deficit (-) / Surplus (+)	(20.38)	(37.99)	(55.11)	(85.26)	(181.5)	(3.8)	(42.3)	(59.0)
<b>5. MONEY AND CREDIT (Ksh bn.)</b>								
Liquidity (L) <sup>1</sup>	1,808.53	1,863.89	1,837.68	1,854.93	1,970.47	1,991.41	2,021.74	2,060.59
Money Supply (M3) <sup>2</sup>	1,484.20	1,513.66	1,489.75	1,514.15	1,595.01	1,612.99	1,638.46	1,670.86
Reserve Money	236.15	234.62	245.37	255.01	259.26	260.79	252.10	259.02
Total Domestic Credit	1,481.98	1,490.21	1,516.78	1,505.13	1,550.52	1,605.98	1,584.34	1,620.14
Government	300.49	288.77	327.00	311.58	292.51	331.14	302.79	332.68
Private sector and other public sector	1,181.49	1,201.44	1,189.78	1,193.55	1,258.01	1,274.84	1,281.56	1,287.47
<b>6. MONEY AND CREDIT (Annual % Change)</b>								
Liquidity (L) <sup>1</sup>	19.30	22.11	19.16	19.05	15.29	15.30	15.27	13.94
Money Supply (M3) <sup>2</sup>	19.35	20.66	18.35	19.07	15.52	14.18	14.03	12.58
Reserve Money	12.51	8.12	9.52	14.54	17.61	17.08	9.25	9.69
Total Domestic Credit	30.10	28.16	29.11	26.65	15.35	15.36	11.51	9.32
Government	8.01	3.21	16.81	12.17	5.29	14.50	3.45	10.71
Private and other public sector	37.24	36.07	32.96	31.07	17.97	15.59	13.61	8.97
<b>7. BALANCE OF PAYMENTS (US\$ m)</b>								
Overall Balance	(184.51)	(1.74)	26.00	99.22	609.04	(20.53)	136.23	77.32
Current Account	(290.25)	(174.98)	(441.73)	(370.14)	(315.25)	(505.97)	(461.67)	(430.48)
Trade Balance	(802.17)	(694.45)	(871.86)	(864.60)	(834.96)	(956.88)	(858.97)	(783.91)
Capital and Financial Account	105.74	173.24	467.73	469.36	924.29	485.44	597.90	507.80
<b>8. FOREIGN EXCHANGE RESERVES (US\$ m)</b>								
Official**	5,557.17	3,984.60	4,010.60	4,247.66	5,282.58	5,262.05	5,398.28	5,475.60
Months of imports cover	3,986.34	3,984.60	4,010.60	4,247.66	5,282.58	5,262.05	5,398.28	5,475.60
Commercial banks	3.58	3.57	3.55	3.71	4.27	4.19	4.24	4.26
Commercial banks	1,570.83	1,930.75	1,472.12	1,797.12	1,735.85	1,734.73	1,573.43	1,752.12
<b>9. PUBLIC DEBT (US\$ bn)</b>	15.66	16.09	17.08	17.47	19.39	19.47	19.85	20.25
Domestic	7.65	7.97	8.96	9.41	10.20	10.36	10.70	10.83
As % of GDP	27.68	28.80	24.42	24.32	26.09	22.56	23.32	23.85
External	8.01	8.12	8.12	8.06	9.20	9.11	9.15	9.42
As % of GDP	28.97	29.34	22.13	20.82	23.53	19.85	19.96	20.75
<b>10. GROSS DOMESTIC DEBT (Ksh bn)***</b>	764.27	795.21	803.89	800.68	858.83	872.16	901.85	922.20
<b>11. AVERAGE EXCHANGE RATE</b>								
Ksh/US\$	96.36	101.27	93.68	86.66	84.79	84.14	84.08	84.61
Ksh/Pound Sterling	152.12	159.41	148.17	135.10	131.95	131.27	132.05	136.26
Ksh/ 100 Yen	125.55	131.97	120.85	111.33	106.91	106.50	106.93	108.25
Ksh/Euro	132.68	138.74	127.13	114.15	106.51	103.60	104.20	108.80

\* Data on Government budget for 2008/09 fiscal year remain provisional until publication in the Annual Economic Survey

\*\* Figures in parentheses refer to official reserves in terms of average of current year imports of goods and non-factor services.

\*\*\* Excludes IMF funds on-lent to the Govt by the CBK, which is included in external public debt.

<sup>1</sup> Previously M3XT

<sup>2</sup> Previously M3X

Sources: Kenya National Bureau of Statistics, Ministry of Finance, Nairobi Stock Exchange and Central Bank of Kenya

## Overall Inflation

# TRENDS IN VARIOUS MEASURES OF INFLATION

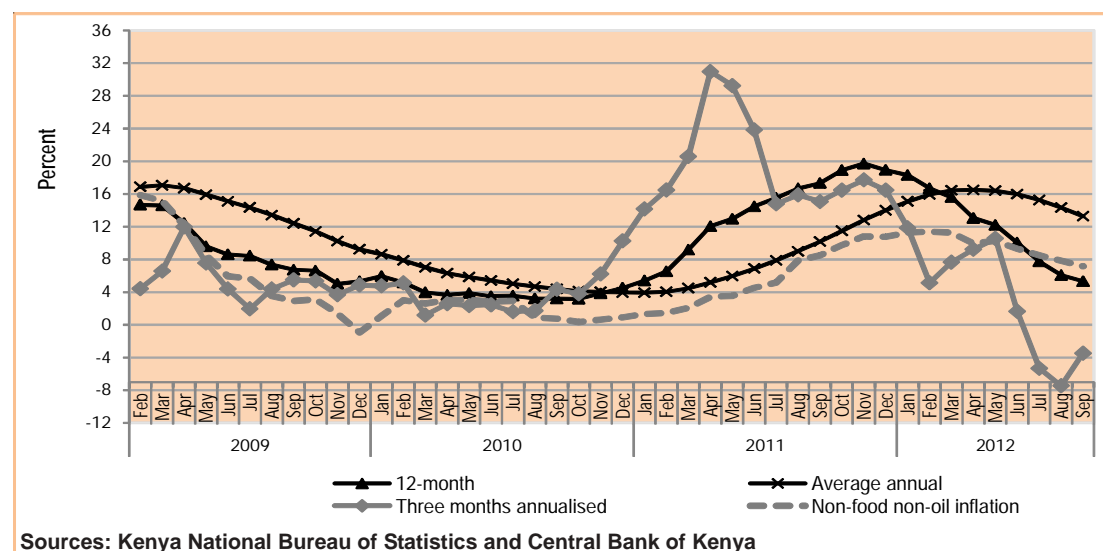
Overall 12-month inflation eased further from 6.1 percent in August 2012 to 5.3 percent in September 2012 reflecting further easing in food and fuel inflation. 12-month inflation in the 'Food and Non-Alcoholic Beverages' category declined from 3.6 percent in August 2012 to 2.9 percent in September 2012. Fuel inflation also eased in September 2012 as indicated by a decline in 12-month inflation in the 'Transport' category from 3.4 percent in August 2012 to 3.0 percent in September 2012 and in the 'Housing, Water, Electricity, Gas and other Fuels' category from 8.5 percent in August 2012 to 7.7 percent in September 2012. Non-food non-fuel inflation declined from 7.8 percent in August 2012 to 7.2 percent in September 2012 while annual average inflation declined from 14.3 percent in August 2012 to 13.3 percent in September 2012. But the three months annualized rate of inflation increased from -7.5 percent in August 2012 to -3.5 percent in September 2012 (Table 1.1 and Chart 1A).

**TABLE 1.1: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)**

Overall Inflation	2011							2012								
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
12-month	14.48	15.53	16.67	17.32	18.91	19.72	18.93	18.31	16.69	15.61	13.06	12.22	10.05	7.74	6.09	5.32
Average annual	6.88	7.88	9.00	10.18	11.49	12.82	14.02	15.10	15.93	16.45	16.50	16.40	15.97	15.27	14.33	13.29
Three months annualised	23.82	14.81	15.88	15.08	16.47	17.71	16.45	11.86	5.16	7.66	9.24	10.57	1.65	-5.32	-7.46	-3.46
Non-food non-oil inflation	4.52	5.17	7.88	8.51	9.75	10.82	10.76	11.27	11.39	11.27	9.95	10.28	9.31	8.49	7.84	7.17

Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

**CHART 1A: 12-MONTHS OVERALL, AVERAGE ANNUAL & THREE MONTHS ANNUALISED INFLATION (%)**



Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

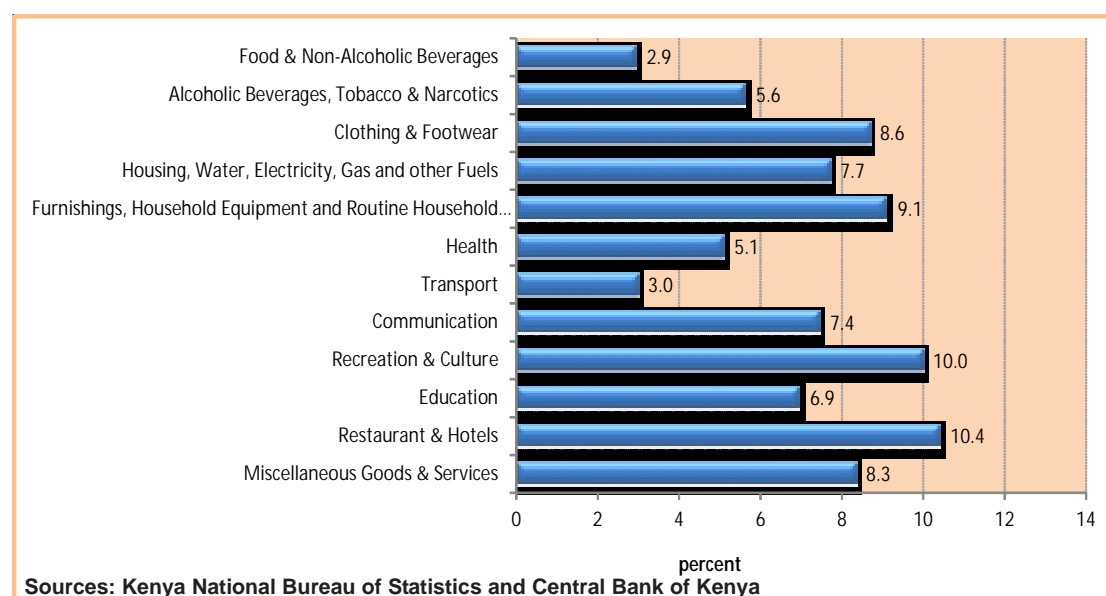
## Inflation Across Categories of Goods & Services

The decline in "non-food non-fuel inflation" is reflected in all component baskets except Recreation and Culture which rose marginally from 9.9 percent in August to 10.0 percent in September 2012. Inflation in 'Furnishings, Household Equipment and Routine Maintenance', 'Clothing and Footwear', 'Miscellaneous Goods and Services', 'Alcoholic Beverages, Tobacco and Narcotics', 'Health' and 'Education' consumption baskets declined to 9.1 percent, 8.6 percent, 8.3 percent, 5.6 percent, 5.1 percent and 6.9 percent, respectively, in September 2012 compared with 10.2

percent, 9.4 percent, 9.0 percent, 6.0 percent, 5.3 percent and 7.0 percent, respectively, in August 2012.

Developments across all categories of goods and services, and the distribution of weights in the Kenya consumer price index (CPI) are summarized in Table 1.2 and Chart 1B. Chart 1C shows that 22.6 percent of overall 12-month inflation in September 2012 was attributed to Food and Non-Alcoholic Beverages while inflation in Housing, Water, Electricity, Gas and Other Fuels categories was 24.0 percent and inflation in Transport 5.0 percent.

**CHART 1B: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES IN SEPTEMBER 2012 (%)**



**TABLE 1.2: 12-MONTH INFLATION BY INCOME GROUPS (%)**

	Jun-11	Jul-11	Aug-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
Combined Nairobi	14.24	14.47	15.61	19.23	18.49	16.48	15.39	12.75	12.44	9.73	7.41	5.30	4.29
Lower Income	15.96	16.00	17.14	20.63	20.27	17.80	16.50	13.43	13.33	10.11	7.69	5.17	4.16
Middle Income	9.57	10.15	11.28	15.75	14.07	13.15	12.56	10.90	10.00	9.17	7.15	6.07	5.00
Upper Income	10.14	11.67	12.92	13.69	11.56	11.09	10.87	10.41	9.70	5.54	3.39	3.18	2.50
Other provinces- excluding Nairobi	14.66	16.29	17.43	18.73	18.18	16.84	15.77	13.28	12.07	10.27	7.97	6.64	6.04
<b>TOTAL KENYA</b>	<b>14.48</b>	<b>15.53</b>	<b>16.67</b>	<b>18.93</b>	<b>18.31</b>	<b>16.69</b>	<b>15.61</b>	<b>13.06</b>	<b>12.22</b>	<b>10.05</b>	<b>7.74</b>	<b>6.09</b>	<b>5.32</b>

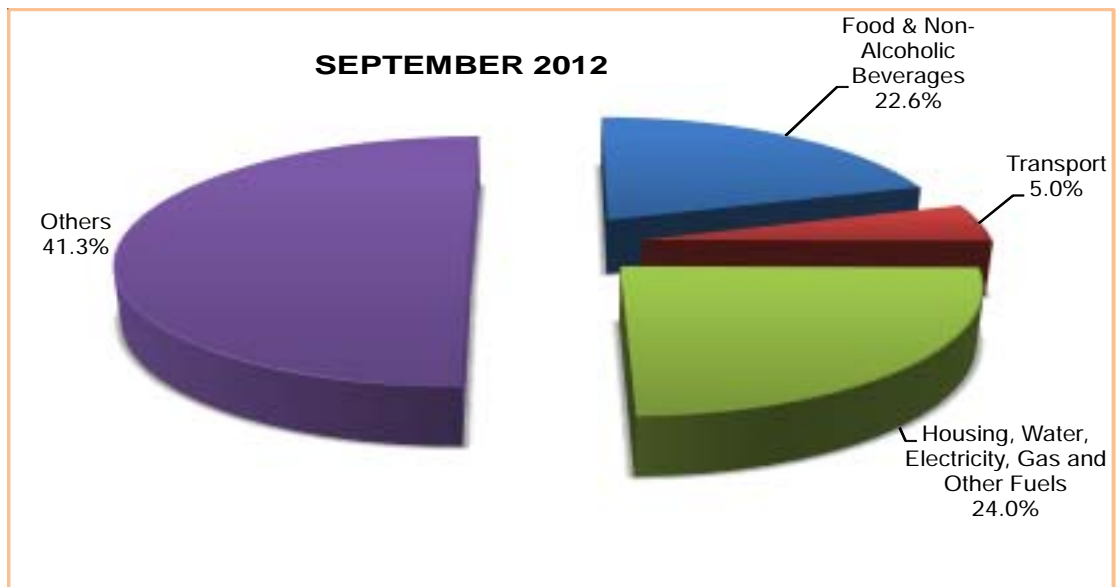
Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflationary pressures eased for all the income groups in Nairobi in September 2012. However, inflation was higher in urban centres outside Nairobi (Table 1.3). On average, the prices of goods and services in urban centres outside Nairobi rose by 6.0 percent in September 2012 compared with an average increase of 4.3 percent recorded in Nairobi. The slowdown of inflation in Nairobi largely reflected reduced food prices. The indices for the 'Nairobi Lower Income' group, the 'Nairobi Middle Income' and the 'Nairobi Upper Income groups rose at slower rates of 4.2 percent,



5.0 percent and 2.5 percent respectively, in September 2012 compared with 5.2 percent, 6.1 percent and 3.2 percent in the previous month.

**CHART 1C: PERCENTAGE CONTRIBUTIONS TO TOTAL INFLATION IN SEPT 2012**



**TABLE 1.3: OVERALL INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES (SEPTEMBER 2012)**

SEPTEMBER 2012	Weight-CPI Kenya	NAIROBI				REST OF URBAN		TOTAL KENYA
		Lower Income	Middle Income	Upper Income	Nairobi Combined	Rest of Kenya Combined		
Food & Non-alcoholic beverages	36.0	0.0	6.5	3.7	1.6	3.9	2.9	
Alcoholic beverages, Tobacco & narcotics	2.1	5.0	4.0	3.8	4.7	6.2	5.6	
Clothing & Footwear	7.4	9.0	6.0	7.2	8.2	8.9	8.6	
Housing, Water, Electricity, Gas and other fuels	18.3	9.4	2.5	3.8	7.6	7.7	7.7	
Furnishings, Household equipment and Routine household maintenance	6.2	7.8	5.5	2.5	7.1	10.5	9.1	
Health	3.1	3.4	8.8	4.3	4.7	5.3	5.1	
Transport	8.7	3.5	2.2	-1.7	3.0	2.9	3.0	
Communication	3.8	6.3	7.7	5.9	6.7	7.9	7.4	
Recreation & culture	2.3	11.0	10.0	5.9	10.6	9.5	10.0	
Education	3.1	3.5	4.1	6.8	3.8	9.2	6.9	
Restaurants & hotels	4.5	10.5	7.9	6.2	9.8	10.8	10.4	
Miscellaneous goods & services	4.5	8.9	6.1	3.0	8.0	8.5	8.3	
<b>ALL GROUPS</b>	<b>100.0</b>	<b>4.2</b>	<b>5.0</b>	<b>2.5</b>	<b>4.3</b>	<b>6.0</b>	<b>5.3</b>	

Source: Kenya National Bureau of Statistics

### Inflation Outlook

Inflationary pressures are expected to ease in the coming months on account of the stable exchange rate and the improved weather conditions in the food basket regions.

# DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

## Monetary Aggregates

Growth in broad money supply, M3, decelerated to 12.5 percent in the year to September 2012 from 19.3 percent in the year to September 2011 and was within the 15.0 percent target for September 2012. But the growth in money supply, M2, that is, M3 excluding foreign currency deposits, stabilised at 14.3 percent in the year to September 2012 compared with a corresponding period in 2011 (Table 2.1 and Chart 2A). The slowdown in M3 growth partly reflected the deceleration in reserve money growth. Over a similar period, foreign currency deposits, in M3, increased by Ksh 10.1 billion (4.0 percent) compared with an increase of Ksh 86.1 billion (52.1 percent).

**TABLE 2.1: MONEY SUPPLY AND ITS SOURCES (KSH BILLION)**

	2010 September	2011 September	2012 September	Absolute Change		%age change	
				2010/11 September	2011/12 September	12 months Sep-11	12 months Sep-12
<b>1. Money supply, M3 (2+3) 2/</b>	<b>1243.6</b>	<b>1484.2</b>	<b>1670.5</b>	<b>240.6</b>	<b>186.3</b>	<b>19.3</b>	<b>12.5</b>
1.1 Money supply, M2 3/	1078.3	1232.8	1409.0	154.5	176.2	14.3	14.3
1.2 Money supply, M1	536.9	627.7	667.0	90.8	39.3	16.9	6.3
1.3 Currency outside banks	104.7	123.7	129.8	19.0	6.1	18.2	4.9
<b>2. Net foreign assets 4/</b>	<b>278.1</b>	<b>310.1</b>	<b>351.4</b>	<b>32.0</b>	<b>41.3</b>	<b>11.5</b>	<b>13.3</b>
Central Bank	257.7	292.0	348.9	34.3	56.9	13.3	19.5
Banking Institutions	20.4	18.1	2.4	-2.3	-15.6	-11.4	-86.5
<b>3. Net domestic assets (3.1+3.2)</b>	<b>965.5</b>	<b>1174.1</b>	<b>1319.1</b>	<b>208.6</b>	<b>145.0</b>	<b>21.6</b>	<b>12.3</b>
<b>3.1 Domestic credit (3.1.1+3.1.2)</b>	<b>1139.1</b>	<b>1482.0</b>	<b>1611.6</b>	<b>342.9</b>	<b>129.6</b>	<b>30.1</b>	<b>8.7</b>
3.1.1 Government (net)	278.2	300.5	324.1	22.3	23.6	8.0	7.9
3.1.2 Private sector and other public sector	860.9	1181.5	1287.5	320.6	106.0	37.2	9.0
<b>3.2 Other assets net (3-3.1)</b>	<b>-173.6</b>	<b>-307.9</b>	<b>-292.5</b>	<b>-134.2</b>	<b>15.4</b>	<b>77.3</b>	<b>-5.0</b>
<b>Memorandum items</b>							
1. Overall liquidity, L 1/	1516.0	1808.5	2060.1	292.6	251.6	19.3	13.9
2. Reserve money	209.9	236.2	252.5	26.3	16.4	12.5	6.9
Currency outside banks	104.7	123.7	129.8	19.0	6.1	18.2	4.9
Bank reserves	105.2	112.4	122.7	7.2	10.2	6.9	9.1

*Absolute and percentage changes may not necessarily add up due to rounding*

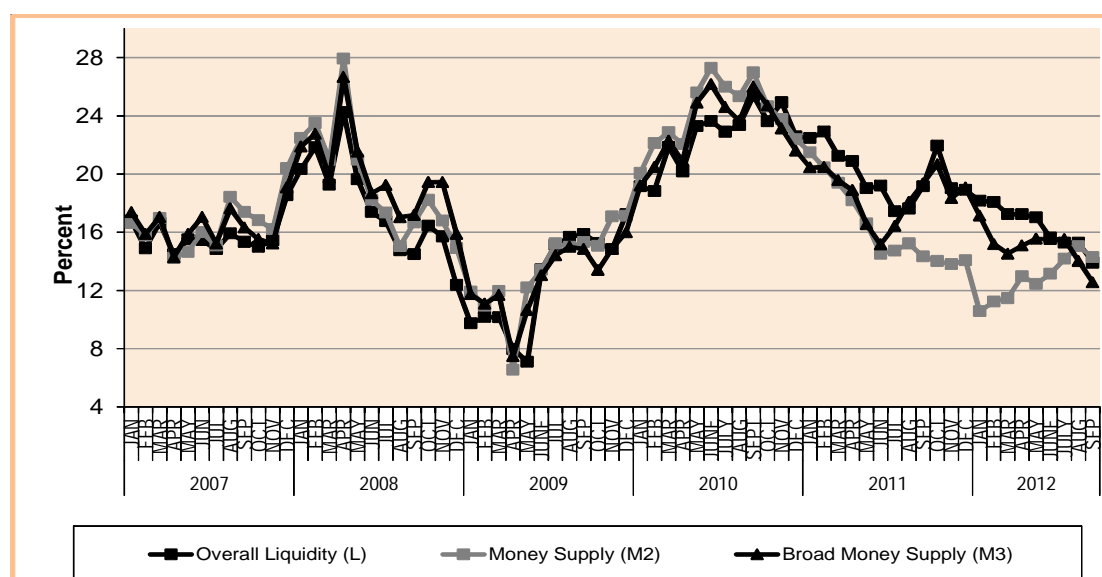
*1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.*

*2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications. Foreign currency deposits are valued at current exchange rate from July 2008.*

*3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand savings and time deposits. It excludes central and local Government deposits with banking institutions.*

*4/ Net Foreign Assets at current exchange rate to the US dollar.*

**CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY**



Source: Central Bank of Kenya

The deceleration in the growth of broad money supply, M3, in the year to September 2012 was reflected by slowdown in the growth of Net Domestic Assets (NDA) of the banking sector (Table 2.1). Growth in the NDA of the banking sector slowed to 12.3 percent (Ksh 145.0 billion) in the year to September 2012 from 21.6 percent (Ksh 208.6 billion) recorded in the previous year on account of deceleration in private sector credit growth (Table 2.2). The NFA of the banking sector increased by Ksh 41.3 billion (13.3 percent) in the twelve months to September 2012 compared with an increase of Ksh 32.0 billion (11.5 percent) in a corresponding period in 2011. The increase in the NFA of the banking sector was mainly due to increased holdings by the Central Bank of Kenya following interbank market purchases to build the stock of foreign exchange reserves and receipt of the proceeds of syndicated loan for bridging shortfall in net domestic financing by Government in June 2012. The NFA of the Central Bank grew 19.5 percent (Ksh 56.9 billion) to Ksh 348.9 billion in the year to September 2012 from Ksh 292.0 billion in September 2011 while NFA of commercial banks declined by Ksh 15.6 billion (86.5 percent) to Ksh 2.4 billion from Ksh 18.1 billion in September 2011.

**TABLE 2.2: BANKING SYSTEM NET DOMESTIC CREDIT (KSH BILLION)**

	2011 September		2012 September		Absolute Change September		Annual %age Change September	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2010/11	2011/12	2010/11	2011/12
<b>1. Credit to Government</b>	<b>300.5</b>	<b>20.3</b>	<b>324.1</b>	<b>20.1</b>	<b>22.3</b>	<b>23.6</b>	<b>8.0</b>	<b>7.9</b>
Central Bank	49.6	3.3	3.8	0.2	50.2	-45.8	-7761.8	-92.4
Commercial Banks & NBFIs	250.9	16.9	320.3	19.9	-27.9	69.4	-10.0	27.7
<b>2. Credit to other public sector</b>	<b>32.8</b>	<b>2.2</b>	<b>50.1</b>	<b>3.1</b>	<b>14.9</b>	<b>17.3</b>	<b>82.8</b>	<b>52.8</b>
Local government	3.0	0.2	4.6	0.3	5.1	1.6	-237.2	53.8
Parastatals	29.9	2.0	45.6	2.8	9.8	15.7	48.5	52.7
<b>3. Credit to private sector</b>	<b>1148.7</b>	<b>77.5</b>	<b>1237.3</b>	<b>76.8</b>	<b>305.7</b>	<b>88.7</b>	<b>36.3</b>	<b>7.7</b>
Agriculture	55.9	3.8	56.3	3.5	15.4	0.4	38.0	0.7
Manufacturing	152.0	10.3	163.0	10.1	42.3	11.1	38.6	7.3
Trade	196.0	13.2	202.3	12.6	56.1	6.3	40.1	3.2
Building and construction	49.4	3.3	63.1	3.9	17.6	13.7	55.6	27.8
Transport & communications	77.2	5.2	73.9	4.6	17.1	-3.3	28.5	-4.3
Finance & insurance	26.4	1.8	31.7	2.0	5.1	5.3	23.8	20.3
Real estate	128.1	8.6	159.9	9.9	35.1	31.8	37.7	24.8
Mining and quarrying	23.6	1.6	20.4	1.3	7.5	-3.2	46.6	-13.7
Private households	163.9	11.1	173.7	10.8	46.8	9.8	40.0	6.0
Consumer durables	72.8	4.9	78.6	4.9	20.3	5.8	38.6	8.0
Business services	87.2	5.9	87.9	5.5	3.6	0.8	4.4	0.9
Other activities	116.3	7.8	126.5	7.9	38.8	10.3	50.1	8.8
<b>4. TOTAL (1+2+3)*</b>	<b>1482.0</b>	<b>100.0</b>	<b>1611.6</b>	<b>100.0</b>	<b>342.9</b>	<b>129.6</b>	<b>23.7</b>	<b>8.7</b>

\* Absolute and percentage changes may not necessarily add-up due to rounding

Source: Central Bank of Kenya

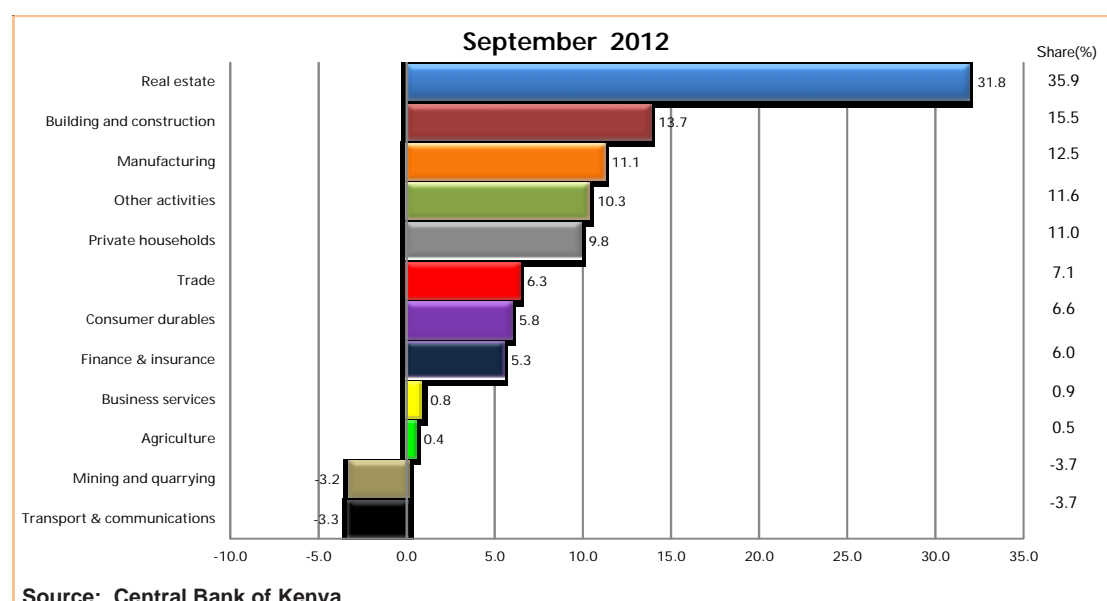
### Domestic Credit Developments

Domestic credit from the banking sector expanded by Ksh 129.6 billion (8.7 percent) in the twelve months to September 2012 compared with Ksh 342.9 billion (30.1 percent) in a similar period in 2011 (Table 2.2). Credit to Government stabilised at 8.0 percent growth, while that to the private sector decelerated on account of tighter credit condition with tightening of monetary policy from October 2011 through June 2012.

The banking sector channeled its credit largely to the private sector which accounted for 76.8 percent of total lending in September 2012 compared with 77.5 percent in similar period in 2011. The net increase in private sector credit in the year to September 2012 was Ksh 88.7 billion compared with Ksh 305.7 billion recorded in the year to September 2011. This translated into an annual growth rate of 7.7 percent compared with 36.3 percent in the year to September 2011 and corresponding target of 14.8 percent in September 2012.

Most activities of the private sector recorded reduced credit supply in the year to September 2012 compared with a corresponding period in 2011. In terms of shares to total absolute change in private sector credit flows in the month of September 2012, real estate accounted for 35.9 percent (or Ksh 31.8 billion), building and construction accounted for 15.5 percent (or Ksh 13.7 billion); manufacturing accounted for 12.5 percent (or Ksh 11.1 billion); private households accounted for 11.0 percent (or Ksh 9.8 billion); trade accounted for 7.1 percent (or Ksh 6.3 billion); Consumer durables accounted for 6.6 percent (or Ksh 5.8 billion); and finance and insurance accounted for 6.0 percent (or Ksh 5.3 billion).

**CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO SEPTEMBER 2012 (Ksh billion)**



Net credit to the government, which accounted for 20.1 percent of total bank credit in September 2012, increased at the stable pace of 7.9 percent in the period under review.

### Reserve Money

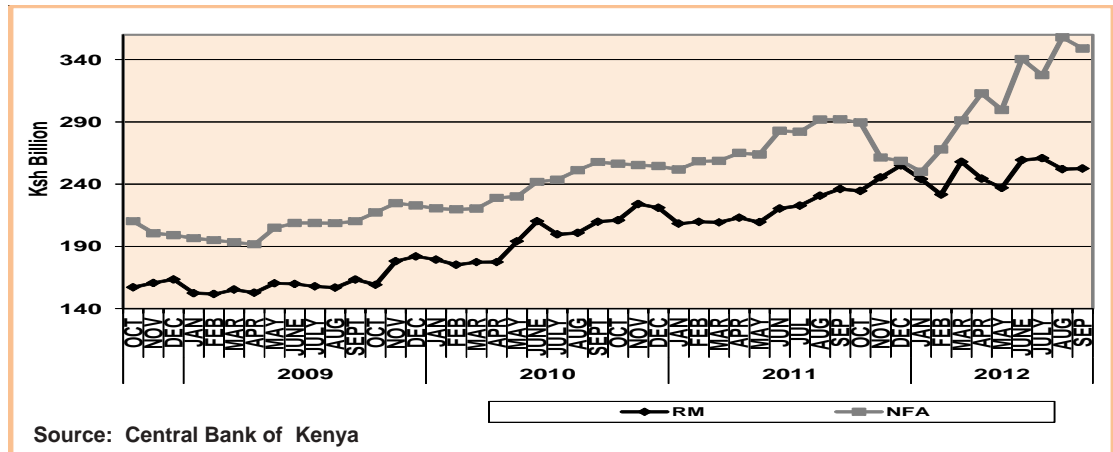
Reserve money increased by 6.9 percent in the twelve months to September 2012 compared with 12.5 percent growth in the corresponding period in 2011 (Table 2.3 and Chart 2C). At Ksh 252.5 billion in September 2012, reserve money was Ksh 4.8 billion below respective target. The growth in reserve money comprised 9.1 percent increase in bank reserves and 4.9 percent growth in currency outside banks.

**TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)**

	2011 September	2012 September	Absolute change		Change (%)		2012	
			2010/11	2011/12	2010/11	2011/12	September Target	Deviation
1. Net Foreign Assets	292.0	348.9	34.3	56.9	13.3	19.5	332.7	16.2
2. Net Domestic Assets	-55.9	-96.4	-8.0	-40.6	16.8	72.6	-75.4	-21.0
2.1 Government Borrowing (net)	49.6	3.8	50.2	-45.8	-7761.8	-92.4	3.9	-0.1
2.2 Commercial banks (net)	0.4	-45.6	0.4	-46.0	55082.1	-11015.0	-32.9	-12.7
2.3 Other Domestic Assets (net)	-111.3	-56.8	-61.2	54.5	122.1	-49.0	-46.3	-10.4
3. Reserve Money	236.2	252.5	26.3	16.4	12.5	6.9	257.4	-4.8
3.1 Currency outside banks	123.7	129.8	19.0	6.1	18.2	4.9	140.0	-10.2
3.2 Bank reserves	112.4	122.7	7.2	10.2	6.9	9.1	117.3	5.3

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY AND NET FOREIGN ASSETS



The sources of reserve money growth in the twelve months to September 2012 was largely an increase in the net foreign assets (NFA) of the Central Bank of Kenya. Net foreign assets of the Central Bank of Kenya rose by 19.5 percent to Ksh 348.9 billion in the year to September 2012 on account of receipt of US\$ 600 million, the proceeds of syndicated loan to bridge a shortfall in net domestic financing in June 2012, and purchase from the interbank market to build the stock of foreign reserves. The NDA of the Central Bank decreased by Ksh 40.6 billion to a Ksh -96.4 billion stock in the year to September 2012, from Ksh -55.9 billion in the previous year. This was reflected in reduction of net claims to commercial banks and the Government. Net claims to commercial banks decreased by Ksh 46.0 billion to a deposit of Ksh 45.6 billion in the year to September 2012 from Ksh 0.4 billion in the previous year on account of open market sales for liquidity management. Net credit to the Government decreased by Ksh 45.8 billion to Ksh 3.8 billion. Meanwhile, other domestic assets (net) of the Central Bank increased by Ksh 54.5 billion to Ksh -56.8 billion in the year to September 2012 from Ksh -111.3 billion in September 2011.

**Central Bank Rates** The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) to 13.0 percent in the month of September 2012 from 16.5 percent in August 2012. The reduction in CBR was supported by the declining inflationary pressure, stability in the exchange rate and stability in the short term money market rates.

**Short Term Interest Rates** Short term interest rates trended downward in the month of September 2012 (Table 2.4 and Chart 2D). The weighted average interbank rate decreased to 7.02 percent in September 2012 from 8.97 percent in August 2012. The repo rate decreased to 8.42 percent in September 2012 from 9.52 percent in August 2012. The movements in short term rates reflect improved liquidity in the market. In addition, the 91-day Treasury bill rate decreased to 7.77 percent in September 2012 from 10.93 percent in August 2012, while the 182-day Treasury bill rate declined to 9.36 percent in September 2012 from 11.77 percent in August 2012.

**Lending and Deposit Rates**

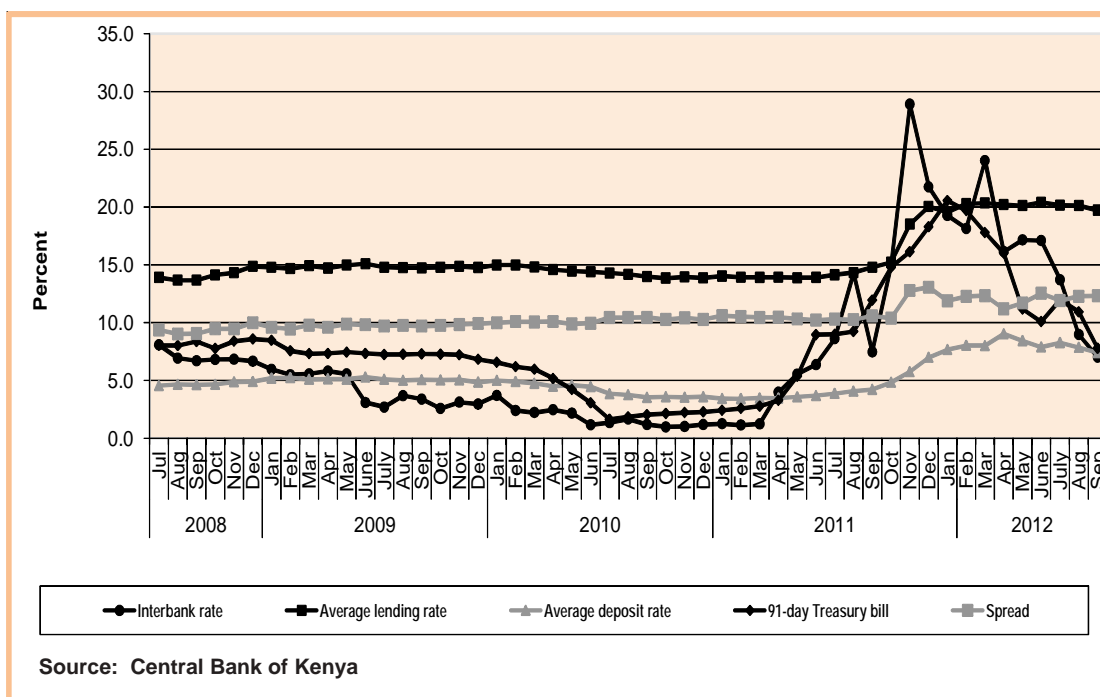
Commercial banks average lending rates declined by 40 basis points to 19.73 percent in September 2012 from 20.13 percent in August 2012, while the average deposit rate decreased to 7.40 percent from 7.85 percent in August 2012. Consequently, the interest rate spread rose to 12.33 percent in September 2012 from 12.28 percent in August 2012.

**TABLE 2.4: INTEREST RATES (%)**

	2011						2012					
	June	Aug	Sep	Oct	Nov	Dec	Apr	May	June	July	Aug	Sept
91-day Treasury bill rate	8.95	9.23	11.93	14.80	16.14	18.30	16.01	11.18	10.09	11.95	10.93	7.77
Overdraft rate	13.59	14.28	14.64	14.87	18.67	20.20	20.27	20.41	20.30	19.96	20.31	19.80
Interbank rate	6.36	14.29	7.46	14.95	28.90	21.75	16.15	17.16	17.09	13.71	8.97	7.02
Repo rate	-	0.00	0.00	18.89	0.00	17.75	15.47	16.97	17.60	14.31	9.65	8.42
Reverse Repo rate	-	6.25	5.75	-	-	-	-	-	-	-	-	-
Average lending rate (1)	13.91	14.32	14.79	15.21	18.51	20.04	20.22	20.12	20.41	20.15	20.13	19.73
Average deposit rate (2)	3.68	4.07	4.21	4.83	5.75	6.99	9.04	8.42	7.88	8.25	7.85	7.40
0 to 3 - month deposit	4.38	5.37	5.55	6.14	6.95	8.51	11.82	10.85	10.07	10.52	9.84	10.10
Savings deposits	1.37	1.37	1.35	1.33	1.41	1.59	1.58	1.59	1.46	1.66	1.58	1.55
Spread (1-2)	<b>10.23</b>	<b>10.25</b>	<b>10.58</b>	<b>10.39</b>	<b>12.77</b>	<b>13.06</b>	<b>11.19</b>	<b>11.69</b>	<b>12.52</b>	<b>11.90</b>	<b>12.28</b>	<b>12.33</b>

Source: Central Bank of Kenya

**CHART 2D : TRENDS IN INTEREST RATES**



# PERFORMANCE OF THE REAL SECTOR

**Overview** Real GDP for the year 2011 amounted to Ksh 1.54 trillion and was equivalent to 4.4 percent growth compared with output of Ksh 1.47 trillion (5.8 percent growth) in 2010 (Table 3.1). The slowdown in real GDP growth continued in the first 8 months of 2012. Estimates for the January - March and April - June of 2012 indicate growths of 3.4 percent and 3.3 percent, respectively (Chart 3A). The deceleration in economic activity in the first half of 2012 is attributed to unfavourable weather conditions that subdued performance in agriculture, as well as slowed credit extension to most sectors. Although slowed, the increase in total production in the first two quarters of 2012 was largely attributed to Transport and Communication, Wholesale and Retail Trade, and Manufacturing.

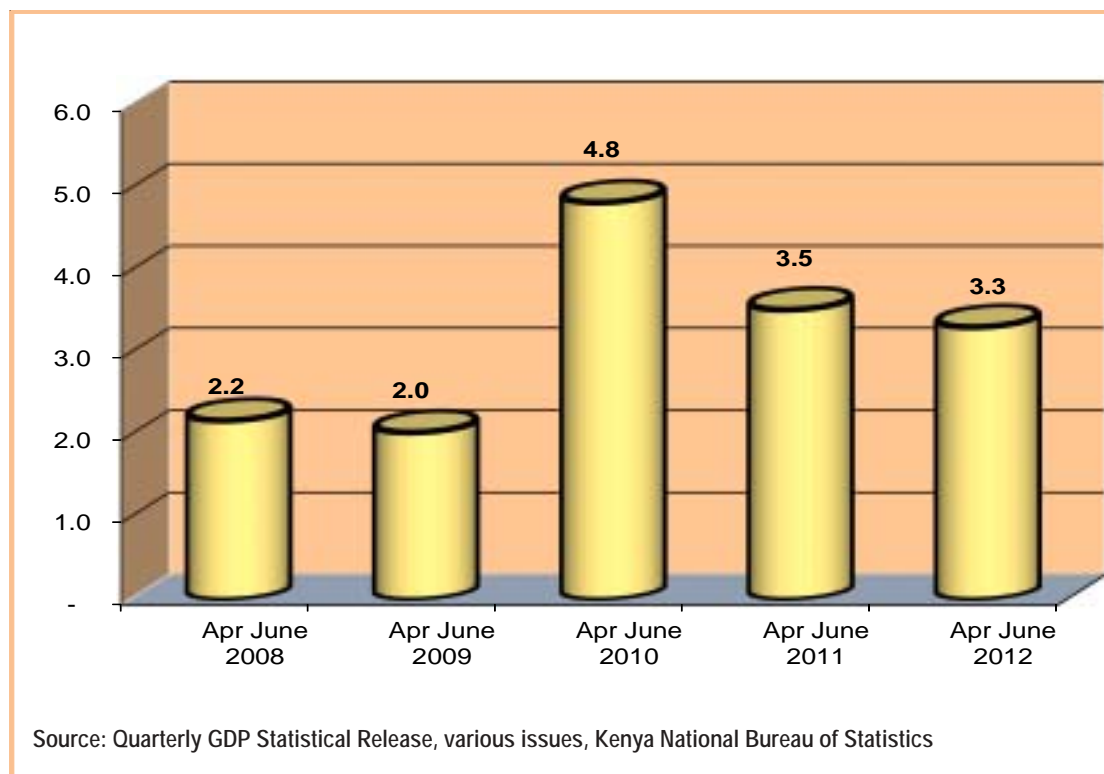
**TABLE 3.1: GROSS DOMESTIC PRODUCT BY ACTIVITY (Constant 2001 Prices, Ksh)**

	Share in 2011 Nominal GDP (%)	Share in 2011 Real GDP (%)	Kshs Million								
			2003	2004	2005	2006	2007	2008	2009	2010	*2011
<b>MAIN SECTORS</b>											
Agriculture and Forestry	24.01	21.01	276,089	280,518	299,749	312,926	320,423	307,354	299,431	318,586	323,465
Fishing	0.50	0.38	4,765	5,246	5,751	6,249	6,181	5,363	5,564	5,713	5,891
Mining	0.68	0.47	5,213	5,195	5,334	5,554	6,272	6,453	6,163	6,763	7,246
Manufacturing	9.45	9.61	105,822	110,544	115,699	122,953	130,673	135,291	137,060	143,263	147,989
Electricity and water supply	0.86	2.11	27,074	27,877	27,898	27,288	29,769	31,341	30,397	33,335	32,465
Construction	4.13	3.49	31,530	32,932	35,446	37,649	40,405	43,735	49,270	51,486	53,713
Wholesale and retail trade, repairs	10.61	10.80	92,604	100,481	106,009	118,361	131,754	138,044	143,460	154,942	166,205
Hotels & Restaurants	1.67	1.35	9,899	13,741	15,572	17,894	20,814	13,298	18,993	19,796	20,792
Transport, Storage & Communications	9.67	12.37	104,915	112,251	122,243	136,306	156,845	161,615	171,994	182,181	190,382
Financial intermediation	6.38	4.23	42,064	42,657	43,869	47,170	50,306	51,659	55,375	60,379	65,095
Real estate, renting and business services	4.45	5.25	61,864	63,740	65,882	68,446	70,860	73,503	75,674	78,089	80,888
Public administration and defense	5.00	3.14	46,991	47,062	46,461	45,974	45,031	45,317	46,031	47,085	48,270
Education	5.84	5.90	71,045	72,268	72,908	73,188	76,257	80,771	82,952	86,651	90,873
Health and social work	2.48	2.14	25,431	26,408	27,249	28,075	28,983	30,035	31,352	31,786	32,896
Other community, social and personal services	3.19	3.64	42,917	44,514	45,876	47,814	49,420	50,829	52,156	53,557	55,988
Private households with employed persons	0.44	0.29	3,855	3,932	4,011	4,091	4,173	4,256	4,342	4,428	4,517
Less : Financial services indirectly measured	(1.05)	-0.77	(10,315)	(10,801)	(11,261)	(11,835)	(12,174)	(10,484)	(11,945)	(11,260)	(11,843)
<b>All industries at basic 2001 prices</b>	<b>88.31</b>	<b>85.42</b>	<b>941,763</b>	<b>978,565</b>	<b>1,028,696</b>	<b>1,088,103</b>	<b>1,155,991</b>	<b>1,168,382</b>	<b>1,198,270</b>	<b>1,266,782</b>	<b>1,314,832</b>
Taxes less subsidies on products	11.69	14.58	113,895	130,772	144,088	161,367	180,855	188,882	196,117	207,981	224,474
<b>Real GDP at 2001 market prices</b>	<b>100.00</b>	<b>100.00</b>	<b>1,055,658</b>	<b>1,109,338</b>	<b>1,172,784</b>	<b>1,249,470</b>	<b>1,336,846</b>	<b>1,357,263</b>	<b>1,394,387</b>	<b>1,474,763</b>	<b>1,539,306</b>
GDP at Mkt Prices			1,055,658	1,109,338	1,172,784	1,249,470	1,336,846	1,357,263	1,394,387	1,474,763	1,539,306
Overall GDP Deflator			107	115	121	130	137	155	170	173	197
<b>Annual Growth Rates in Percent</b>											
	Share in 2011 Nominal GDP (%)	Share in 2011 Real GDP (%)	2003	2004	2005	2006	2007	2008	2009	2010	*2011
Agriculture and Forestry	24.01	21.01	2.6	1.6	6.9	4.4	2.4	(4.1)	(2.6)	6.4	1.5
Fishing	0.50	0.38	-6.9	10.1	9.6	8.7	-1.1	(13.2)	3.7	2.7	3.1
Mining	0.68	0.47	3.5	-0.3	2.7	4.1	12.9	2.9	(4.5)	9.7	7.1
Manufacturing	9.45	9.61	6.0	4.5	4.7	6.3	6.3	3.5	1.3	4.5	3.3
Electricity and water supply	0.86	2.11	14.0	3.0	0.1	-2.2	9.1	5.3	(3.0)	9.7	(2.6)
Construction	4.13	3.49	1.0	4.4	7.6	6.2	7.3	8.2	12.7	4.5	4.3
Wholesale and retail trade, repairs	10.61	10.80	1.5	8.5	5.5	11.7	11.3	4.8	3.9	8.0	7.3
Hotels & Restaurants	1.67	1.35	-20.3	38.8	13.3	14.9	16.3	(36.1)	42.8	4.2	5.0
Transport, Storage & Communications	9.67	12.37	3.5	7.0	8.9	11.5	15.1	3.0	6.4	5.9	4.5
Financial intermediation	6.38	4.23	1.5	1.4	2.8	7.5	6.6	2.7	7.2	9.0	7.8
Real estate, renting and business services	4.45	5.25	2.3	3.0	3.4	3.9	3.5	3.7	3.0	3.2	3.6
Public administration and defense	5.00	3.14	0.6	0.2	-1.3	-1.0	-2.1	0.6	1.6	2.3	2.5
Education	5.84	5.90	9.7	1.7	0.9	0.4	4.2	5.9	2.7	4.5	4.9
Health and social work	2.48	2.14	2.8	3.8	3.2	3.0	3.2	3.6	4.4	1.4	3.5
Other community, social and personal services	3.19	3.64	-0.0	3.7	3.1	4.2	3.4	2.9	2.6	2.7	4.5
Private households with employed persons	0.44	0.29	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Less : Financial services indirectly measured	-1.05	-0.77	-3.3	4.7	4.3	5.1	2.9	(13.9)	13.9	(5.7)	5.2
<b>Total GDP at basic 2001 prices</b>	<b>88.31</b>	<b>85.42</b>	<b>3.1</b>	<b>3.9</b>	<b>5.1</b>	<b>5.8</b>	<b>6.2</b>	<b>1.1</b>	<b>2.6</b>	<b>5.7</b>	<b>3.8</b>
Taxes less subsidies on products	11.69	14.58	1.3	14.8	10.2	12.0	12.1	4.4	3.8	6.0	7.9
<b>Real GDP at 2001 market prices</b>	<b>100.00</b>	<b>100.00</b>	<b>2.9</b>	<b>5.1</b>	<b>5.7</b>	<b>6.5</b>	<b>7.0</b>	<b>1.5</b>	<b>2.7</b>	<b>5.8</b>	<b>4.4</b>

\*Provisional

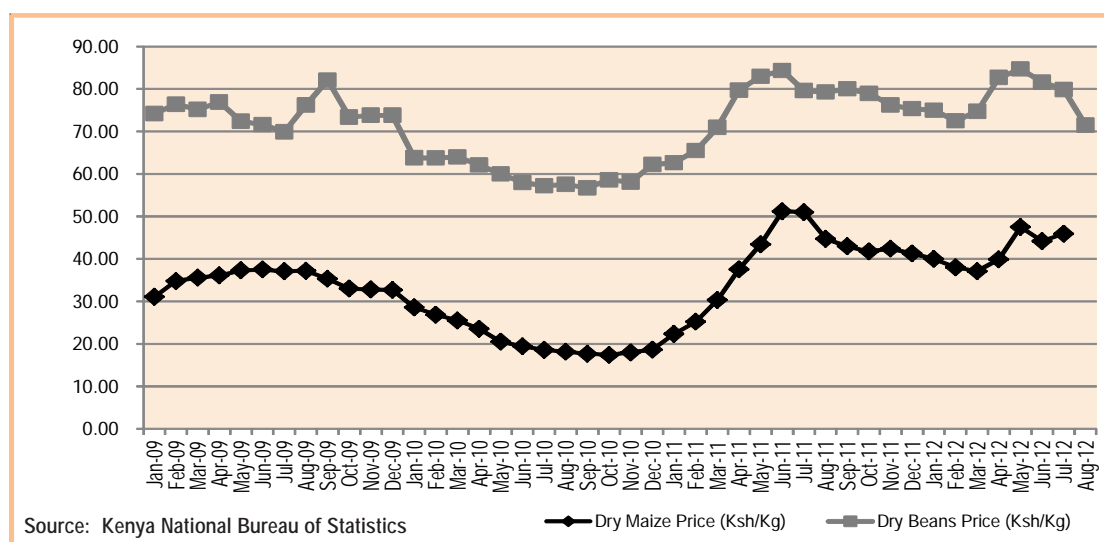
Source: Quarterly GDP Statistical Release, various issues, Kenya National Bureau of Statistics

CHART 3A: REAL GDP GROWTH IN THE SECOND QUARTERS



**Agriculture** Agriculture contributed 21.0 percent of GDP in 2011. Growth in this activity slowed from 6.4 percent in 2010 to 1.5 percent in 2011 largely due to adverse weather conditions that prevailed during 2011. Agriculture contributed a lower 19.0 percent of GDP in the second quarter of 2012. Although delayed, better performance of the long rains during the second quarter of 2012 supported food production. The prices of food items such as maize and beans subsequently eased in the second quarter of 2012 (Chart 3B).

CHART 3B: MOVEMENT IN AVERAGE RETAIL PRICES FOR MAIZE AND BEANS



**Major Indicators in Agriculture**

Most of the selected indicators of agriculture for the year to August 2012 registered lower production growth rates compared to the previous period (Table 3.2). With the exception of the coffee sector which had a positive growth rate, other sectors



including tea, horticulture, and milk registered lower production growth rates in 2012 compared to year 2011.

**TABLE 3.2: OUTPUT GROWTH OF MAJOR CROPS AND MILK**

	2010	2011*	Year to Aug 11*	Year to Aug 12*
<b>Tea</b>				
Output (Metric tonnes)	399,006	377,913	367,692	363,037
Growth (%)	31.2%	-5.3%	-3.9%	-1.3%
<b>Horticulture</b>				
Exports (Metric tonne)	268,533	238,562	247,389	245,272
Growth (%)	8.2%	-11.2%	-4.1%	-0.9%
<b>Coffee</b>				
Sales (Metric tonnes)	38,938	29,984	33,297	43,206
Growth (%)	-21.3%	-23.0%	-6.9%	29.8%
<b>Milk</b>				
Output (million litres)	511	549	521	499
Growth %	25.7%	7.5%	3.3%	-4.3%

\* Provisional

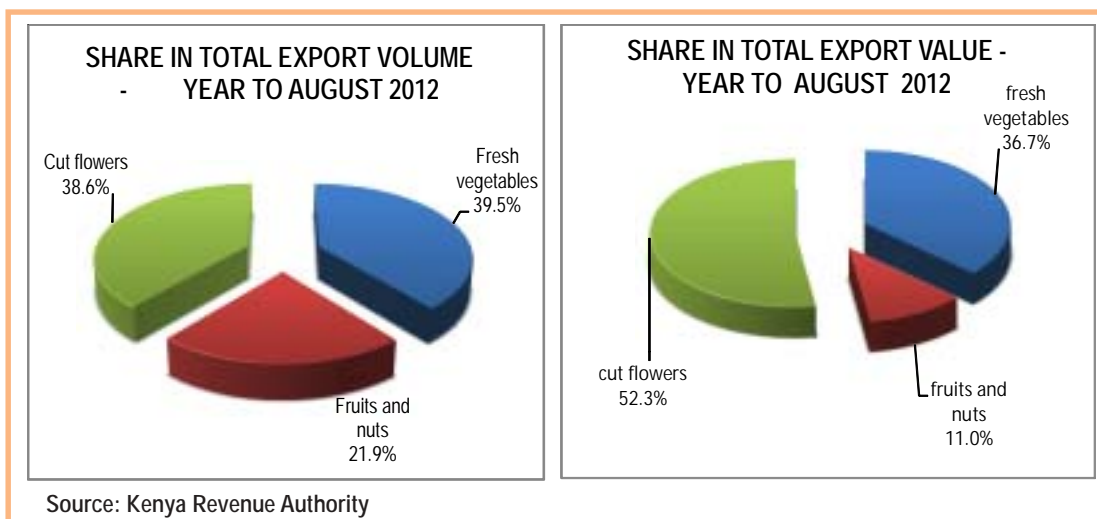
Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

### Tea

Most of the indicators for agriculture for the year to August 2012 period reveal slowed performance. Production of tea declined by 1.3 percent from 367,692 metric tonnes in the year to August 2011 to 363,037 metric tonnes in the year to August 2012 (). The production was adversely impacted by frost in the first quarter of 2012. The average auction price for tea declined from Ksh 265 per kilogram in the year to August 2011 period to Ksh 249 per kilogram in the year to August 2012.

**Horticulture** Exports of fresh horticultural products also declined by 0.9 percent from 247,389 metric tonnes in the year to August 2011 to 245,272 metric tonnes in the year to August 2012 (Chart 3C). The reduced exports was largely explained by lower demand for the horticultural products in the Eurozone markets.

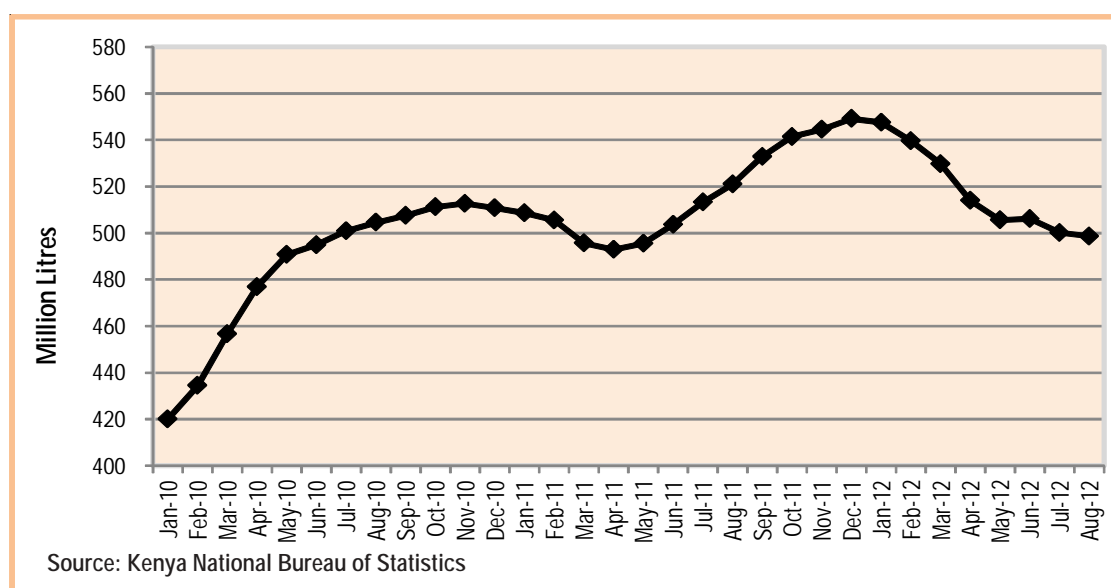
**CHART 3C: HORTICULTURAL EXPORTS**



**Coffee** Performance of the coffee sub-sector, however improved with sales increasing from 33,297 metric tonnes in the year to August 2011 to 43,206 metric tonnes in the year to August 2012. The average auction price for coffee declined from Ksh 536 per kilogram in the year to August 2011 to Ksh 495 per kilogram in the year to August 2012.

**Milk** Production of milk declined by 4.3 percent from 521 million litres in the year to August 2011 to 499 million litres in the year to August 2012 (Chart 3D). Production of milk in the period January-April 2012 was largely on account of frost and dry weather effects on animal feeds in the main milk producing areas.

**CHART 3D: PRODUCTION OF PROCESSED MILK (MILLION LITRES) - 12-MONTHS CUMULATED**



**Manufacturing** The contribution of manufacturing to total GDP declined marginally to 9.6 percent in 2011 compared with 9.7 percent in 2010. Total manufactured output amounted to Ksh 148.0 billion in 2011 compared with Ksh 143.3 in 2010. Activities within manufacturing registered largely improved performance in the year to August 2012 as indicated by increased production of cement, assembled vehicles and galvanized sheets while production of soft drinks declined (Table 3.3). The amount of cement produced increased by 2.7 percent from 3,977,833 tonnes in the year to August 2011 to 4,083,358 tonnes in the year to August 2012 (Chart 3E). The number of vehicles assembled locally also increased from 5,708 in the year to August 2011 to 6,437 in the year to August 2012. Production of galvanized sheets increased from 253,688 tonnes in the year to August 2011 to 262,680 tonnes in the year to August 2012. Production of soft drinks however declined by 3.5 percent from 367,335 thousand litres in the year to August 2011 to 354,430 thousand litres in the year to August 2012.

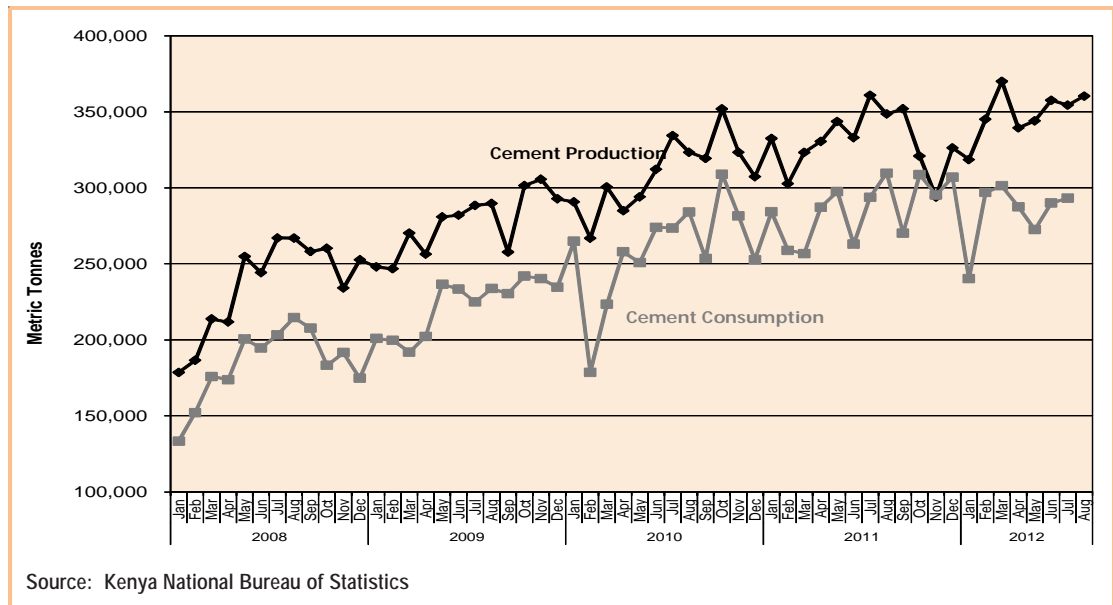
**TABLE 3.3: PRODUCTION OF SELECTED MANUFACTURED GOODS**

	Annual Totals		Year to Aug 11*	Year to Aug 12*
	2010	2011*		
<b>Cement production</b>				
Output (MT)	3,709,806	3,969,003	3,977,833	4,083,358
<i>Growth %</i>	11.7%	7.0%	11.6%	2.7%
<b>Assembled vehicles</b>				
Output (No.)	5,721	6,049	5,708	6,437
<i>Growth %</i>	13.1%	5.7%	6.0%	12.8%
<b>Galvanized sheets</b>				
Output (MT)	201,410	268,095	253,688	262,680
<i>Growth %</i>	10.6%	33.1%	30.3%	3.5%
<b>Soft drinks</b>				
Output ('000 litres)	361,333	371,353	367,335	354,430
<i>Growth %</i>	0.0%	2.8%	-0.5%	-3.5%

MT = Metric tonnes  
 \* Provisional

Source: Kenya National Bureau of Statistics

**CHART 3E: CEMENT PRODUCTION AND CONSUMPTION**



**Energy Sector**

Local generation of electricity increased by 3.7 percent from 7,089 million kilowatt hours in the year to August 2011 to 7,353 million kilowatt hours in the year to August 2012 (Table 3.4). Of the total electricity produced in the year to August 2012, 50.2 percent was hydro-power, 29.4 percent was thermal power and the remaining 20.4 percent was geo-thermal power. Production of hydro-electricity increased by 11.9 percent to 3,694 million kilowatt hours in the year to August 2012. Geothermal power generation increased by 3.1 percent to 1,498 million kilowatt hours in the year to August 2012 while thermal power production declined by 7.5 percent to 2,161 million kilowatt hours in the same period. Estimated consumption of electricity increased by 2.2 percent to 6,224 million kilowatt hours in the year to August 2012 compared with consumption of 6,088 million kilowatt hours over the same period in 2011. Consumption of fuels also increased by 23.3 percent to 4,283 thousand tonnes in the year to August 2012.

TABLE 3.4: ENERGY SECTOR PERFORMANCE

	Annual Totals		Year to Aug 11*	Year to Aug 12*
	2010	2011*		
Electricity Supply (Generation)				
Output (million KWH)	6,407	7,161	7,089	7,353
<i>Growth %</i>	20.2%	11.8%	21.9%	3.7%
<i>Of which:</i>				
Hydro-power Generation (million KWH)	3,195	3,183	3,301	3,694
<i>Growth (%)</i>	51.7%	-0.4%	32.7%	11.9%
Geo-Thermal Generation (million KWH)	1,442	1,444	1,453	1,498
<i>Growth (%)</i>	-2.4%	0.1%	0.0%	3.1%
Thermal (million KWH)	1,769	2,533	2,336	2,161
<i>Growth (%)</i>	1.3%	43.2%	24.7%	-7.5%
Consumption of electricity (million KWH)	5,870	6,152	6,088	6,224
<i>Growth %</i>	10.8%	4.8%	7.8%	2.2%
Consumption of Fuels ('000 tonnes)	3,177	3,545	3,475	4,283
<i>Growth %</i>	-0.4%	17.6%	9.2%	23.3%
Murban crude oil average price (US \$ per barrel)	79.2	110.6	101.3	112.5
<i>Growth %</i>	26.4%	39.7%	33.9%	17.0%

\* Provisional

Source: Kenya National Bureau of Statistics

## Tourism

The number of tourists arriving in Kenya rose by 0.8 percent from 1,223,580 in the year to August 2011 to 1,233,625 in the year to August 2012 (Table 3.5). Of the total tourist arrivals, 83.9 percent came through the Jomo Kenyatta International Airport, Nairobi while 16.1 percent came through the Moi International Airport, Mombasa.

TABLE 3.5: TOURIST ARRIVALS BY POINT OF ENTRY

	2010	2011	Year to Aug 11	Year to Aug 12	Year to Aug 12 % Share	Year to Aug 12 % Growth
CRUISE	-	856	586	270	0.02%	-53.9%
MIAM	232,698	233,844	245,689	198,795	16.1%	-19.1%
JKIA	862,586	1,030,436	977,305	1,034,560	83.9%	5.9%
TOTAL	1,095,284	1,265,136	1,223,580	1,233,625	100.0%	0.8%

Source: Kenya Tourist Board

In terms of region of origin, Europe and Africa dominated accounting for 45.5 percent and 23.6 percent of total tourist arrivals, respectively in the year to August 2012 (Table 3.6). America and Oceanic countries had highest growth sources of tourist arrivals at 6.5 percent and 4.5 percent respectively. Growth in tourist arrivals from Europe and Asia however declined by 3.3 percent and 3.7 percent, respectively, in the year to August 2012 compared with growths of 14.0 percent and 11.9 percent in the year to August 2011.

TABLE 3.6: TOURIST ARRIVALS BY CONTINENT

REGION	2010	2011	Year to Aug 11	Year to Aug 12	Year to Aug 12 % Share	Year to Aug 12 % Growth
Africa	257,132	303,886	292,838	291,665	23.6%	-0.4%
Middle East	N/A	38,880	26,187	51,095	4.1%	N/A
America	142,087	158,268	152,409	162,291	13.2%	6.5%
Asia	137,657	137,707	143,663	138,352	11.2%	-3.7%
Europe	536,422	597,443	580,769	561,606	45.5%	-3.3%
Oceania	21,985	28,952	27,127	28,345	2.3%	4.5%
Cruise	0	856	586	270	0.0%	N/A
<b>Total</b>	<b>1,095,284</b>	<b>1,265,136</b>	<b>1,223,580</b>	<b>1,233,625</b>	<b>100.0%</b>	<b>0.8%</b>

Source: Kenya Tourist Board

**Transport** The total number of passengers (both incoming and outgoing) handled at the Jomo Kenyatta International Airport, Nairobi (JKIA) increased from 3,773,084 in the year to August 2011 to 4,371,325 in the year to August 2012. This increase was attributed to both incoming and outgoing passengers. The number of incoming passengers increased by 14.6 percent to 2,194,045 in the year to August 2012, while the number of outgoing passengers increased by 17.1 percent to 2,177,280 in the same period. The volume of oil handled through Kenya pipeline increased by 9.7 percent to 4,611 million litres in the year to August 2012 (Table 3.7).

TABLE 3.7: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	2010	2011*	Year to Aug 11*	Year to Aug 12*
<b>Number of Passengers thro' JKIA</b>				
Total passenger flows	3,029,419	4,135,126	3,773,084	4,371,325
Growth (%)	15.4%	36.5%	38.6%	15.9%
o.w. Incoming	1,508,841	2,088,798	1,913,798	2,194,045
Growth (%)	13.1%	38.4%	42.1%	14.6%
Outgoing	1,520,578	2,046,328	1,859,286	2,177,280
Growth %	17.8%	34.6%	35.1%	17.1%
<b>Kenya Pipeline Oil Throughput</b>				
Output ('000 litres)	4,203,718	4,257,426	4,201,990	4,611,233
Growth %	-2.8%	1.3%	-1.9%	9.7%

\* Provisional

Source: Kenya National Bureau of Statistics

## DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND EXCHANGE RATES

**Overview** Kenya's overall Balance of Payments position improved from a deficit of US\$ 220 million in the year to September 2011 to a surplus of US\$ 1,244 million in the year to September 2012. This improvement in the balance of payments resulted from increased financial inflows into the capital and financial account that more than financed the current account deficit. Improvement in financial flows reflected an increase in; net commercial bank flows, net short-term (including portfolio) flows and net official flows during the period under review.

**TABLE 4.1: BALANCE OF PAYMENTS (US\$ M)**

ITEM	Year to Sep 2011 *	Year to September 2012 *				Year to Sep 2012 *	Absolute Change	% Change
		Q1 Oct-Dec	Q2 Jan- Mar	Q3 Apr- Jun	Q4 Jul- Sep			
1. OVERALL BALANCE	-220	123	448	487	185	1244	1464	-664.2
2. CURRENT ACCOUNT	-3171	-987	-965	-940	-1398	-4290	-1118	35.3
2.1 Goods	-8706	-2431	-2352	-2613	-2600	-9996	-1290	14.8
Exports (fob)	5799	1419	1556	1470	1526	5971	171	2.9
Imports (cif)	14505	3849	3908	4083	4126	15966	1461	10.1
2.2 Services	5535	1444	1387	1673	1202	5706	171	3.1
Non-factor services (net)	2644	654	799	1011	701	3164	520	19.7
Income (net)	-51	-8	-23	-48	-38	-118	-66	129.3
Current Transfers	2942	798	611	710	539	2659	-283	-9.6
3. CAPITAL & FINANCIAL ACCOUNT	2951	1110	1413	1427	1584	5534	2583	87.5
3.1 Capital Transfers (net)	268	53	47	51	65	216	-52	-19.3
3.2 Financial Account	2683	1057	1366	1376	1519	5318	2635	98.2
memo:								
Gross Reserves	5557	6045	6165	7030	7214	7214	1657	29.8
Official	3986	4248	4688	5283	5476	5476	1489	37.4
<i>imports cover**</i>	3.0	3.1	3.4	3.7	3.8	3.8	1	25.7
<i>imports cover***</i>	3.6	3.7	3.9	4.3	4.3	4.3	1	19.0
Commercial Banks	1571	1797	1477	1747	1738	1738	168	10.7

\* Provisional.

\*\* Based on current year's imports of goods and non-factor services

\*\*\* Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

### Current Account

The Current Account deficit increased by 35.3 percent to US\$ 4,290 million in the year to September 2012 from US\$ 3,171 million in the year to September 2011 following a 14.8 percent or US \$ 1,289.6 million increase in the Merchandise account deficit (Table 4.2).

TABLE 4.2: BALANCE ON CURRENT ACCOUNT (US\$ M)

ITEM	Year to Sep 2011*	Year to September 2012*				Year to Sep 2012*	Absolute Change	% Change
		Q1 Oct-Dec	Q2 Jan-Mar	Q3 Apr-Jun	Q4 Jul-Sep			
<b>2. CURRENT ACCOUNT</b>	<b>-3171</b>	<b>-987</b>	<b>-965</b>	<b>-940</b>	<b>-1398</b>	<b>-4290</b>	<b>-1118.4</b>	<b>35.3</b>
2.1 Goods	-8706	-2431	-2352	-2613	-2600	-9996	-1289.6	14.8
Exports (fob)	5799	1419	1556	1470	1526	5971	171.1	2.9
Coffee	218	46	72	81	70	269	51.4	23.6
Tea	1131	293	313	249	301	1156	25.0	2.2
Horticulture	719	159	168	171	175	672	-46.4	-6.5
Oil products	117	19	24	14	21	77	-39.4	-33.8
Manufactured Goods	718	172	184	182	174	712	-5.4	-0.8
Raw Materials	311	118	125	97	92	431	120.1	38.6
Chemicals and Related Products (n.e.s)	547	141	155	142	133	571	24.7	4.5
Miscellaneous Man. Articles	519	128	139	133	148	548	29.3	5.6
Re-exports	337	72	85	113	101	371	34.2	10.2
Other	1184	272	290	287	312	1162	-22.2	-1.9
Imports (cif)	14505	3849	3908	4083	4126	15966	1460.7	10.1
Oil	3742	1072	1109	1007	867	4056	313.8	8.4
Chemicals	1893	478	560	479	539	2057	164.1	8.7
Manufactured Goods	2177	563	565	585	583	2296	118.9	5.5
Machinery & Transport Equipment	3958	936	883	1224	1349	4392	433.3	10.9
Other	2735	800	791	787	787	3166	430.6	15.7
2.2 Services	5535	1444	1387	1673	1202	5706	171.2	3.1
Non-factor services (net)	2644	654	799	1011	701	3164	520.2	19.7
Non-factor services credit	4042	1052	1118	1360	1048	4579	537.1	13.3
transportation	1679	435	493	572	444	1943	264.6	15.8
travel	963	230	219	255	209	914	-49.4	-5.1
Other services account: gov't	745	236	235	263	219	954	208.6	28.0
Other services account: private	654	151	171	270	176	768	113.3	17.3
Income (net)	-51	-8	-23	-48	-38	-118	-66.4	129.3
of which official interest	-58	-21	-20	-45	-35	-120	-61.9	107.3
Current Transfers (net)	2942	798	611	710	539	2659	-282.7	-9.6
Private (net)	2752	753	616	715	544	2629	-123.6	-4.5
of which remittances	824	247	300	295	280	1123	298.4	36.2
Public (net)	190	45	-5	-5	-5	30	-159.1	-84.0

\* Provisional.

Source: Central Bank of Kenya

**Merchandise Account** The merchandise account deficit widened from US\$ 8,706 million in the year to September 2011 to US\$ 9,996 million in the year to September 2012. The increase in receipts from exports of goods was marginal compared with the increase in the value of goods imported.

**Exports** The total value of exports increased marginally by 2.9 percent or US\$ 171.1 million to US\$ 5,971 million in the year to September 2012 as a result of mixed performance in Kenya's tradition exports. Value of coffee export increased by 23.6 percent to US\$ 269m due to an increase in both export quantities and prices, while the value of tea export increase by 2.2 percent to US\$ 1,156m due to favorable export prices. However, value of horticulture export declined by 6.5 percent to US\$ 672 million due to a decrease in export prices over the review period.

Other categories of exports also exhibited mixed performance. Export values of raw materials, chemicals and related products, miscellaneous manufactured articles exports and re-exports increased, while exports of oil products and manufactured goods exports declined. These categories of exports are increasingly becoming important to allow more export diversification and improved export performance.

**Imports** The total value of imports increased by 10.1 percent or US\$ 1,461 million to US\$ 15,966 million in the year to September 2012, on account of increased payments for both public and private imports. Payments for oil imports accounted for 25 percent of the total import bill and increased by 8.4 percent or US\$ 314 million to US\$ 4,056 million in the year to September 2012. This increase may be attributed to high prices of crude oil and refined petroleum products in the international markets.

- Imports to support and enhance capacity for domestic production increased. Imports of manufactured items, mainly intermediate goods, accounted for 14

percent of the total import bill and increased by 5.5 percent from US\$ 2,177 million in the year to September 2011 to US\$ 2,296 million in the year to September 2012.

- Machinery and transport equipment accounted for 28 percent of the total import bill up from 27 percent in the year to September 2011. This category of imports increased by 10.9 percent or US\$ 433 million from US\$ 3,958 million in the year to September 2011 to US\$ 4,392 million in the year to September 2012. Payments were larger for Power Generating Machinery and Equipment, Machinery specialized for particular industries, Metal working machinery, General industrial machinery and equipment, Office machines, electrical machinery, apparatus and appliances and road vehicles.

### Direction of Trade

The share of exports to African countries was stable at 48.4 percent in the year to September 2012 compared to 47.6 per cent in the year to September 2011. Exports to the East African Community (EAC) accounted for 26.3 percent of total exports, having increased from US\$ 1,528 million in the year to September 2011 to US\$ 1,567 million in the year to September 2012. Exports to the COMESA region accounted for 31.7 percent of total exports, despite a decline of 13.4 percent in receipts from US\$ 2,013 million in the year to September 2011 to US\$ 1,891 million in the year to September 2012. At a country destination level, Kenya's exports were mainly to Uganda (13.4 percent), Tanzania (8.7 percent), the United Kingdom (8.3 percent), the Netherlands (6.7 percent) and the USA (5.1 percent). In the year to September 2012, Kenya's imports were mainly from the United Arab Emirates (12.8 percent), India (12.4 percent), China (12.2 percent), Saudi Arabia (6.1 percent) and the USA (4.8 percent). The share of imports from African countries accounted for 10.9 percent. Imports from the EAC region accounted for 2.2 percent of total imports and increased in value from US\$ 292 million in the year to September 2011 to US\$ 346 million in the year to September 2012. Imports from the COMESA region accounted for 4.8 percent of total imports in the year to September 2012 (Table 4.3).

**TABLE 4.3: KENYA'S DIRECTION OF TRADE**

Country	Year to Sept			Share of Imports (%)			Country	Year to Sept			Share of Exports (%)		
	2010	2011	2012	2010	2011	2012		2010	2011	2012	2010	2011	2012
<b>IMPORTS (in millions of US dollars)</b>	<b>1,429</b>	<b>1,629</b>	<b>1,736</b>	<b>12.4</b>	<b>11.3</b>	<b>10.9</b>	<b>EXPORTS (in millions of US dollars)</b>	<b>2,300</b>	<b>2,729</b>	<b>2,885</b>	<b>46.6</b>	<b>47.6</b>	<b>48.4</b>
Africa							Africa						
Of which							Of which						
South Africa	774	816	740	6.7	5.7	4.6	Uganda	626	850	800	12.7	14.8	13.4
Egypt	209	216	338	1.8	1.5	2.1	Tanzania	414	459	521	8.4	8.0	8.7
Others	446	597	658	3.9	4.1	4.1	Egypt	220	251	250	4.5	4.4	4.2
EAC	245	292	346	2.1	2.0	2.2	Sudan	220	250	123	4.5	4.4	2.1
COMESA	476	563	761	4.1	3.9	4.8	Somalia	155	168	231	3.1	2.9	3.9
Rest of the World	10,126	12,773	14,214	87.6	88.7	89.1	DRC	156	186	211	3.1	3.2	3.5
Of which							Rwanda	133	149	184	2.7	2.6	3.1
India	1,251	1,705	1,980	10.8	11.8	12.4	Others	377	415	566	7.6	7.2	9.5
United Arab Emirates	1,537	1,938	2,049	13.3	13.5	12.8	EAC	1,238	1,528	1,567	25.0	26.6	26.3
China	1,310	1,672	1,942	11.3	11.6	12.2	COMESA	1,645	2,013	1,891	33.3	35.1	31.7
Japan	684	723	708	5.9	5.0	4.4	Rest of the World	2,641	3,007	3,073	53.3	53.2	53.7
USA	569	509	769	4.9	3.5	4.8	Of which						
United Kingdom	431	670	492	3.7	4.7	3.1	United Kingdom	520	520	496	10.5	9.1	8.3
Singapore	386	463	138	3.3	3.2	0.9	Netherlands	335	382	350	6.8	6.7	5.9
Germany	332	349	457	2.9	2.4	2.9	USA	232	321	302	4.7	5.6	5.1
Saudi Arabia	408	395	978	3.5	2.7	6.1	Pakistan	218	240	230	4.4	4.2	3.9
Indonesia	308	466	669	2.7	3.2	4.2	United Arab Emirates	214	233	264	4.3	4.1	4.4
Netherlands	212	259	203	1.8	1.8	1.3	Germany	94	90	109	1.9	1.6	1.8
France	203	244	279	1.8	1.7	1.7	India	96	107	98	2.0	1.9	1.6
Bahrain	81	178	173	0.7	1.2	1.1	Afghanistan	160	146	125	3.2	2.6	2.1
Italy	160	144	246	1.4	1.0	1.5	Others	771	967	1,100	15.6	16.9	18.5
Others	2,253	3,059	3,130	19.5	21.2	19.6	Total	4,941.28	5,736.54	5,958.09	100	100	100
<b>Total</b>	<b>11,554.30</b>	<b>14,402.23</b>	<b>15,949.25</b>	<b>100</b>	<b>100</b>	<b>100</b>							

Source: Kenya Revenue Authority



<b>Services Account</b>	<p>The surplus in the services account increased by 3.1 percent or US\$ 171.2 million to US\$ 5, 706 million in the year to September 2012 mainly resulting from increased net non-factor service flows. Non-factor services consist of transportation, travel (tourism), other Government and private services. Inflows from Non-factor services increased by 13.3 percent or US\$ 537 million to US\$ 4,579 million, following increased earnings from Transportation and other Government and private services. The deficit in the income account worsened by US\$ 66 million from a deficit of US\$ 51 million in the year to September 2011 to a deficit of US \$ 118 million in the year to September 2012, reflecting a decline in foreign interest earnings during the period. Net current transfers decreased by 9.6 percent on account of a decline in both net public and private transfers. Remittances which are part of private transfer inflows, however, increased from US\$ 824 million in the year to September 2011 to US\$ 1,123 million in the year to September 2012. In the month of September 2012, remittances to Kenya amounted to US\$ 93 million compared to US\$ 85 million in September, 2011. In the year to September 2012, average remittances inflows amounted to US\$ 94 million up from US\$ 69 million recorded in the year to September 2011. Remittances contribution to Services Account surplus increased from 15 percent in September 2011 to 20 percent in September 2012.</p>
<b>Capital and Financial Account</b>	<p>The capital and financial account surplus increased by US \$ 2,583 million or 87.8 percent, from US\$ 2,951 million in the year to September 2011 to US\$ 5,534 million in the year to September 2012. The surplus was largely in the Financial Account which increased by US \$ 2,635 million (or 98.2 percent) from US\$ 2,683 million in the year to September 2011 to US\$ 5,318 million in the year to September 2012. Within the financial account components, official medium and long-term inflows increased by US\$ 891 million from US\$ 329 million in the year to September 2011 to US\$ 1,221 million in the year to September 2012. Net short term flows including portfolio flows, also increased to US\$ 3,980 million in the year to September 2012 from US\$ 2,084 million in the year to September 2011. However, net private medium and long term flows decreased from a surplus of US\$ 211 million in the year to September 2011 to a deficit of US\$ 68 million in September 2012 following a slow down in inflows of private loans and FDI and an increase in private loans repayments especially to the energy and transport sectors (Table 4.4).</p>

TABLE 4.4.: BALANCE ON CAPITAL AND FINANCIAL ACCOUNT (US\$ M)

ITEM	Year to Sep 2011 *	Year to September 2012*				Year to Sep 2012*	Absolute Change	% Change
		Q1 Oct-Dec	Q2 Jan-Mar	Q3 Apr-Jun	Q4 Jul-Sep			
<b>3. CAPITAL &amp; FINANCIAL ACCOUNT</b>	<b>2951</b>	<b>1110</b>	<b>1413</b>	<b>1427</b>	<b>1584</b>	<b>5534</b>	<b>2582.8</b>	<b>87.5</b>
3.1 Capital Transfers (net)	268	53	47	51	65	216	-51.8	-19.3
3.2 Financial Account	2683	1057	1366	1376	1519	5318	2634.6	98.2
Official, medium & long-term	329	133	139	833	116	1221	891.4	270.7
Inflows	586	191	224	896	211	1521	935.7	159.8
Outflows	-256	-58	-85	-62	-95	-301	-44.4	17.3
Private, medium & long-term (net)	270	-220	589	-119	-154	96	-174.6	-64.5
Commercial Banks (net)	60	-236	609	-77	-132	164	104.9	176.1
Other private medium & long-term (net)	211	16	-20	-42	-22	-68	-279.4	-132.5
Short-term (net) incl. errors & omissions	2084	1145	639	661	1557	4001	1917.8	92.0

\* Provisional.

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US\$ 5,557 million in September 2011 to US\$ 7,214 million in September 2012. The accumulation of Foreign Exchange reserves was largely in the holdings of the Central Bank which accounted for 76 percent of the banking system's total foreign exchange reserves. Official Foreign Exchange reserves held by the Central Bank increased from US\$ 3,986 million or 3.6 months of import cover in September 2011 to US\$ 5,476 million or 4.3 months of import cover in September 2012. Accumulation of gross foreign exchange reserve is attributed to inflow of US\$ 600 million to bridge a deficit in domestic financing for FY 2012/12 in June and purchases from interbank market. Foreign Exchange Reserves held by Commercial Banks increased from US\$ 1,571 million in September 2011 to US\$ 1,738 million in September 2012. Over the same period Residents' Foreign Currency Deposits increased from US\$ 2,852 million in September 2011 to US\$ 3,259 million in September 2012 (Table 4.5).

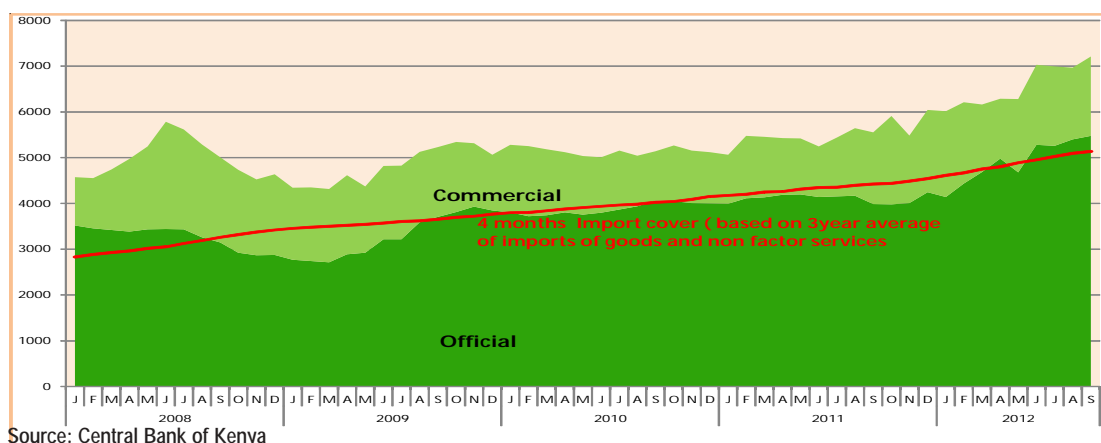
TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US\$ MILLION)

Figures in millions of US dollars									
	Sep 11	Oct 11	Nov 11	Dec 11	May 12	Jun 12	Jul 12	Aug 12	Sep 12
<b>1. Gross Foreign Exchange Reserves</b>	<b>5,557</b>	<b>5,915</b>	<b>5,483</b>	<b>6,045</b>	6,282	7,030	6,995	6,967	7,214
of which:									
Official	3,986	3,985	4,011	4,248	4,677	5,283	5,262	5,398	5,476
<i>imports cover*</i>									
<i>imports cover*</i>	3.6	3.6	3.6	3.7	3.8	4.3	4.2	4.2	4.3
Commercial Banks	1,571	1,931	1,472	1,797	1,605	1,747	1,733	1,569	1,738
<b>2. Residents' foreign currency deposits</b>	<b>2,852</b>	<b>2,945</b>	<b>2,950</b>	<b>3,226</b>	3,106	3,236	3,145	3,184	3,259

\*Based on current year's imports of goods and non-factor services

Source: Central Bank of Kenya

CHART 4A: FOREIGN EXCHANGE RESERVES (US\$ MILLION)



## Exchange Rates

The Kenya Shilling depreciated against all other major world currencies in September 2012. In effect the shilling depreciated by 0.64 percent to trade at an average Ksh 84.61 against the US dollar, 3.18 percent against the Sterling pound to trade at an average of Ksh 136.26, 4.41 percent against the Euro to trade at an average of Ksh 108.8 and 1.23 percent against the Japanese Yen to trade at an average of Ksh 108.25.

In the EAC region, the Kenya Shilling appreciated against the Uganda shilling and the Burundi Franc by 0.31 percent and 0.46 percent respectively but depreciated against the Tanzania shilling by 0.68 percent and the Rwanda Franc by 0.58 percent in September 2012. On average, the Kenya shilling traded at Ush 29.73, Tsh 18.61, RWF 7.19 and BIF 17.11 in September, 2012 compared to Ush 29.63, Tsh 18.74, RWF 7.23 and BIF 17.03 in August 2012 (Table 4.6 and Chart 4D).

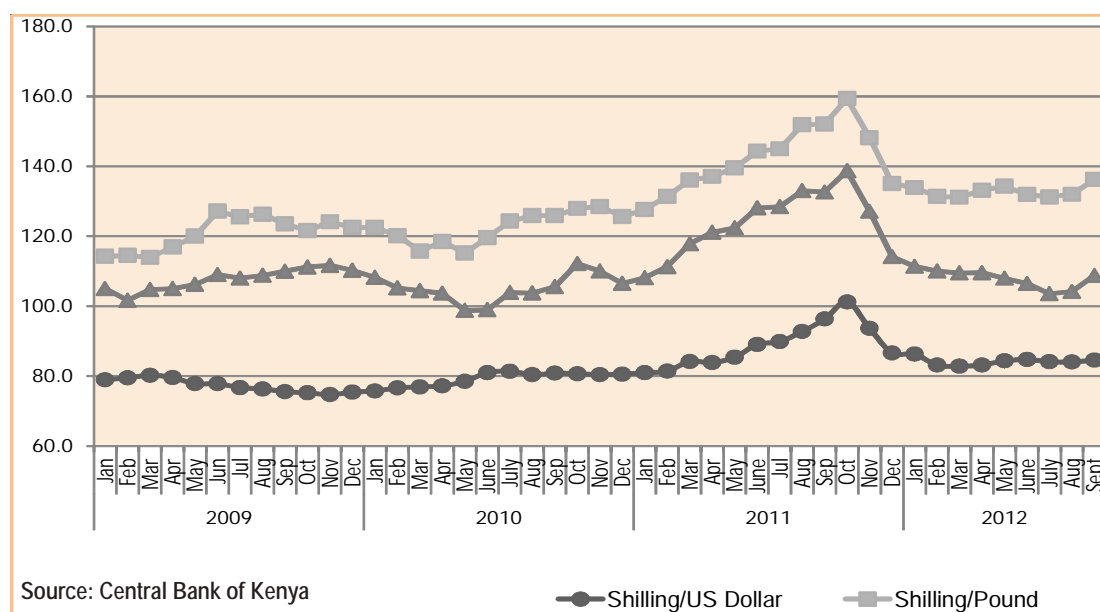
**TABLE 4.6: KENYA SHILLING EXCHANGE RATE**

	2011					2012				% change August 12-September 12
	Aug	Sep	Oct	Nov	Dec	June	July	August	Sep	
US Dollar	92.79	96.36	101.27	93.68	86.66	84.79	84.14	84.08	84.61	0.64
Pound Sterling	151.90	152.12	159.41	148.17	135.10	131.95	131.27	132.05	136.26	3.18
100 Japanese Yen	120.32	125.55	131.97	120.85	111.33	106.91	106.50	106.93	108.25	1.23
Uganda Shilling*	29.68	29.22	27.69	27.62	28.25	29.30	29.42	29.63	29.73	0.31
Tanzania Shilling*	17.40	17.03	16.90	18.58	18.65	18.68	18.82	18.74	18.61	-0.68
Rwanda Franc*	6.46	6.23	5.93	6.43	6.96	7.12	7.20	7.23	7.19	-0.58
Burundi Franc*	13.28	12.81	12.17	13.29	15.11	16.49	16.81	17.03	17.11	0.46
Euro	133.04	132.68	138.74	127.13	114.15	106.51	103.60	104.20	108.80	4.41
Euro per US dollar	0.697	0.726	0.730	0.737	0.759	0.80	0.81	0.81	0.78	-3.61

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

**CHART 4B: KENYA SHILLING EXCHANGE RATE**



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## DEVELOPMENTS IN THE BANKING SECTOR

**Overview** During the period ended September 30, 2012, the Kenyan Banking sector registered enhanced growth in assets driven by growth in deposits and retention of profits.

As at September 30, 2012, the sector comprised 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 111 foreign exchange bureaus and 2 credit reference bureaus.

**Structure of the Balance Sheet** The banking sector's aggregate balance sheet rose by 13.5 percent from Ksh 2,024 billion in September 2011 to Ksh 2,297 billion in September 2012. The main items of the balance sheet were loans and advances, government securities and placements, which accounted for 55.2 percent, 21.0 percent and 6.5 percent of total assets, respectively.

**Loans & Advances** The banking sector gross loans and advances increased from Ksh 1,192.5 billion in September 2011 to Ksh 1,316.8 billion in September 2012, which translated to a growth of 10.4 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,268.1 billion in September 2012, up from Ksh 1,146.8 billion registered in a similar period in 2011.

**Deposit Liabilities** Deposits from customers were the major source of funding for the banking sector, accounting for 74.8 percent of total funding liabilities. The deposit base increased by 13.6 percent from Ksh 1,510.5 billion in September 2011 to Ksh 1,716.4 billion in September 2012 mainly supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

**Capital & Reserves** The banking sector registered improved capital levels in September 2012 with total capital growing by 21.3 percent from Ksh 251.1 billion in September 2011 to Ksh 304.5 billion in September 2012, whereas shareholders' funds increased by 20.1 percent from Ksh 280.5 billion in September 2011 to Ksh 336.9 billion. As a result, the ratios of core and total capital to total risk-weighted assets rose from 16.0 percent and 18.1 percent to 17.6 percent and 20.5 percent, respectively.

**Non-performing Loans** The stock of gross non-performing loans (NPLs) increased by 5.2 percent from Ksh 57.7 billion in September 2011 to Ksh 60.7 billion in September 2012 attributed mainly to the high interest rates experienced over the last one year that resulted in defaults on loans. However, the ratio of gross NPLs to gross loans improved from 4.8 percent to 4.6 percent over the same period due to a more than proportionate growth in gross loans and advances than the increase in non-performing loans. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 58.0 percent to 54.2 percent in September 2011 due to decline in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans remained at 1.7 percent in September 2012 (Table 5.1).

**TABLE 5.1: NON-PERFORMING LOANS & PROVISIONS AMONG BANKS IN KENYA  
(KSH BILLION)**

		September-12	September-11
1	Gross loans and advances	1,192.5	1,316.8
2	Interest in Suspense	10.8	12.7
3	Loans and advances (net of interest suspended)	1,181.7	1,304.1
4	Gross non-performing loans	57.7	60.7
5	Specific Provisions	27.2	26.0
6	General Provisions	7.7	10.0
7	Total Provisions (5+6)	34.9	36.0
8	Net Advances (3-7)	1,146.8	1,268.1
9	Total Non-Performing Loans and advances (4-2)	46.9	48.0
10	Net Non-Performing Loans and advances (9-5)	19.7	22.0
11	Total NPLs as % of total advances (9/3)	4.80%	4.60%
12	Net NPLs as % of gross advances (10/1)	4.00%	3.70%
13	Specific Provisions as % of Total NPLs (5/9)	1.70%	1.70%

Source: Central Bank of Kenya

**Profitability** The banking sector registered a 27.2 percent growth in pre-tax profits, from Ksh 63.5 billion in September 2011 to Ksh 80.8 billion as at end of September 2012. As a result, the annualised return on assets increased from 3.1 percent in September 2011 to 3.7 percent in September 2012. However, return on equity increased from 30.2 percent to 32.0 percent during the same period. Total income increased by 51.1 percent from Ksh 176.1 billion in September 2011 to Ksh 266.1 billion in September 2012, while total expenses increased by 64.6 percent from Ksh 112.6 billion in September 2011 to Ksh 185.3 billion in September 2012 with the increase largely attributed to interest on deposits. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 62 percent, 17 percent and 13 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 42 percent, 24 percent and 21 percent, respectively.

**Liquidity Ratio Requirement** For the month ended September 30, 2012, average liquid assets amounted to Ksh 683.2 billion while total short-term liabilities stood at Ksh 1,658.9 billion, resulting to an average liquidity ratio of 41.2 percent, against 37.3 percent registered in September 2011.

The ratio of gross loans to deposits ratio stood at 76.7 percent, a decrease from 78.9 percent in September 2011.

**Cash Ratio Requirement** The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.34 percent in September 2012 compared with 5.60 percent in August 2012 and 5.25 percent statutory level as shown in Table 5.3 and Chart 5A. Commercial banks maintained an average of Ksh 1.47 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in September 2012 compared with Ksh 5.43 billion in August 2012. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15<sup>th</sup> through 14<sup>th</sup> of every month but subject to a daily minimum of 3.0 percent.

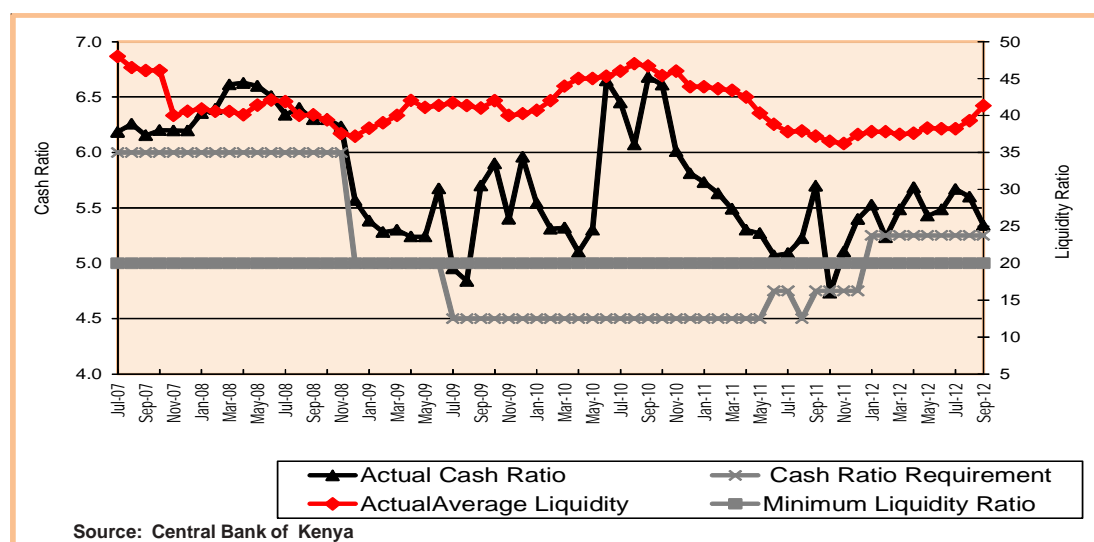
TABLE 5.2 : CASH AND LIQUIDITY RATIOS\* (%)

	2011							2012								
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>Commercial Banks</b>																
Actual Average Liquidity	38.80	37.80	37.90	37.20	36.50	36.20	37.40	37.80	37.80	37.45	37.60	38.30	38.20	38.20	39.30	41.30
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.07	5.09	5.22	5.70	4.73	5.10	5.40	5.53	5.23	5.48	5.68	5.43	5.48	5.67	5.60	5.34
Minimum Cash Ratio Requirement	4.5	4.5	4.5	4.75	4.75	4.75	4.75	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
<b>NBFIs</b>																
Actual Average Liquidity Ratio	46.40	43.60	38.20	41.80	35.10	31.10	29.10	28.30	26.85	25.11	24.20	26.70	32.00	33.20	31.20	31.00
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00

\* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS (%)



### KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 130,874 transaction messages worth Ksh 1,739 billion in September 2012 compared with a volume of 135,243 transaction messages valued at Ksh 1,637 billion moved in August 2012, representing 6.22 percent increase in value and 3.23 percent decrease in volume. Compared with September 2011, the volume increased by 10.16 percent from 118,798 transaction messages to 130,874 transaction messages in September 2012 while value increased by 0.51 percent from 1,730 billion to 1,739 billion, indicating increased usage of KEPSS by the public during the period under review. (Table 5.3)

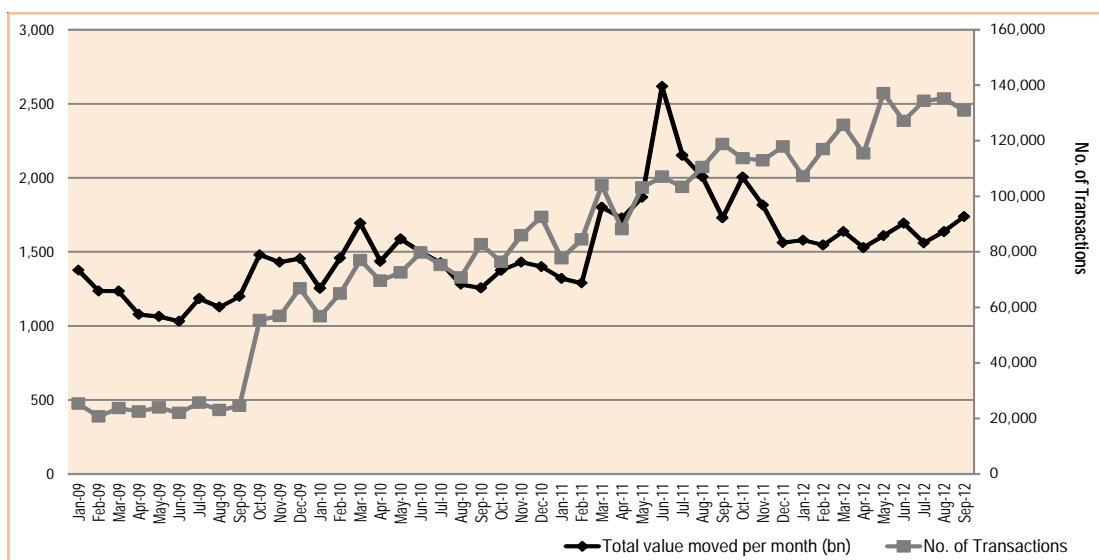
During the twelve months period to September 30, 2012 the value moved averaged Ksh 14 million per transaction. On average, 5,859 transaction messages with an average value of approximately Ksh 79 billion were moved daily (Table 5.3 and Chart 5B). Direct settlements through KEPSS from commercial banks accounted for 98.0 percent of the total settlements while payments processed through ACH and settled in KEPSS averaged 2.0 percent. This is in line with policy expectations.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	Of which indirect (NSI (Ksh bn))	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350
Apr-10	1,436	23	69,634	0.02	20	72	3,482
May-10	1,587	22	72,588	0.02	21	76	3,457
Jun-10	1,501	23	79,760	0.02	21	71	3,798
Jul-10	1,426	21	75,289	0.02	22	65	3,422
Aug-10	1,280	23	70,771	0.02	20	64	3,539
Sep-10	1,256	25	82,770	0.02	22	57	3,762
Oct-10	1,376	29	76,415	0.02	23	60	3,322
Nov-10	1,430	26	85,968	0.02	22	65	3,908
Dec-10	1,401	29	92,592	0.02	23	61	4,026
Jan-11	1,320	21	77,625	0.02	21	63	3,696
Feb-11	1,289	23	84,448	0.02	20	64	4,222
Mar-11	1,802	26	103,986	0.02	22	82	4,727
Apr-11	1,728	21	88,168	0.02	19	91	4,640
May-11	1,868	26	103,112	0.02	21	89	4,910
May-11	1,868	26	103,112	0.02	21	89	4,910
Jun-11	2,617	24	107,063	0.02	21	125	5,098
Jul-11	2,151	24	103,338	0.02	21	102	4,921
Aug-11	2,007	25	110,498	0.02	22	91	5,023
Sep-11	1,730	27	118,798	0.01	22	79	5,400
Oct-11	2,004	25	113,658	0.02	20	100	5,683
Nov-11	1,816	28	112,923	0.02	22	83	5,133
Dec-11	1,562	30	117,916	0.01	20	78	5,896
Jan-12	1,579	28	107,230	0.01	21	75	5,106
Feb-12	1,546	27	116,990	0.01	21	74	5,571
Mar-12	1,638	26	125,739	0.01	22	74	5,715
Apr-12	1,529	26	115,514	0.01	19	80	6,080
May-12	1,610	26	137,135	0.01	22	73	6,233
Jun-12	1,693	26	127,147	0.01	20	85	6,357
Jul-12	1,561	26	134,391	0.01	23	71	6,109
Aug-12	1,637	26	135,243	0.01	23	71	5,880
Sep-12	1,739	26	130,874	0.01	20	87	6,544

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



### Third Party Messages

Multiple third party Message Type (MT 102) increased by 0.47 percent from 14,459 transaction messages in August 2012 to 14,527 transaction messages in September 2012 while single third party Message Type (MT 103) decreased by 6.86 percent from 147,373 transaction messages to 137,768 transaction messages in the same period. Overall, total third party messages through KEPSS decreased by 6.20 percent from 161,832 transaction messages in August 2012 to 151,795 transaction messages in September 2012. This can be attributed to increased usage of MT 202 message type by corporate bodies as a means of optimizing SWIFT transaction charges

Compared with September 2011, multiple third party messages (MT 102) increased by 20.24 percent from 12,082 transaction messages to 14,527 transaction messages in September 2012, while single third party messages (MT 103) increased by 21.12 percent from 113,333 transaction messages to 137,268 transaction messages (Table 5.4 and Chart 5C).

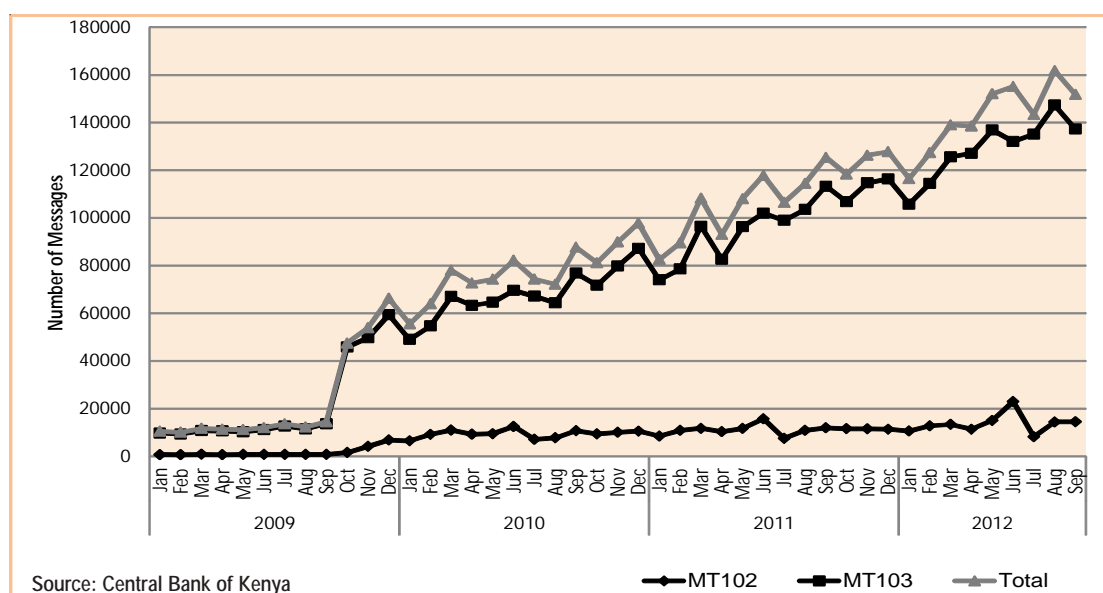
Inter-bank transfers (MT 202) accounted for 33.26 percent of the total value moved through KEPSS as at end of September 2012 while third party (MT 102 and MT 103) messages accounted for 66.74 percent. The total number of third party messages grew by 21.03 percent from 125,415 messages in September 2011 to 151,795 messages in September 2012. This signifies a continued growth in KEPSS usage by individuals and non-bank corporate bodies.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2011	Jan	8580	74,004	82,584
	Feb	10955	78,589	89,544
	Mar	11778	96,550	108,328
	Apr	10392	82,691	93,083
	May	11739	96,324	108,063
	Jun	15794	102,098	117,892
	Jul	7584	98,977	106,561
	Aug	10929	103,561	114,490
	Sep	12028	113,333	125,415
	Oct	11653	106,768	118,421
	Nov	11602	114,741	126,343
	Dec	11424	116,384	127,808
2012	Jan	10661	105,817	116,478
	Feb	12871	114,522	127,393
	Mar	13428	125,628	139,056
	Apr	11439	127,126	138,565
	May	15093	136,942	152,035
	Jun	23048	132,103	155,151
	Jul	8268	135,173	143,441
	Aug	14459	147,373	161,832
	Sep	14527	137,268	151,795

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

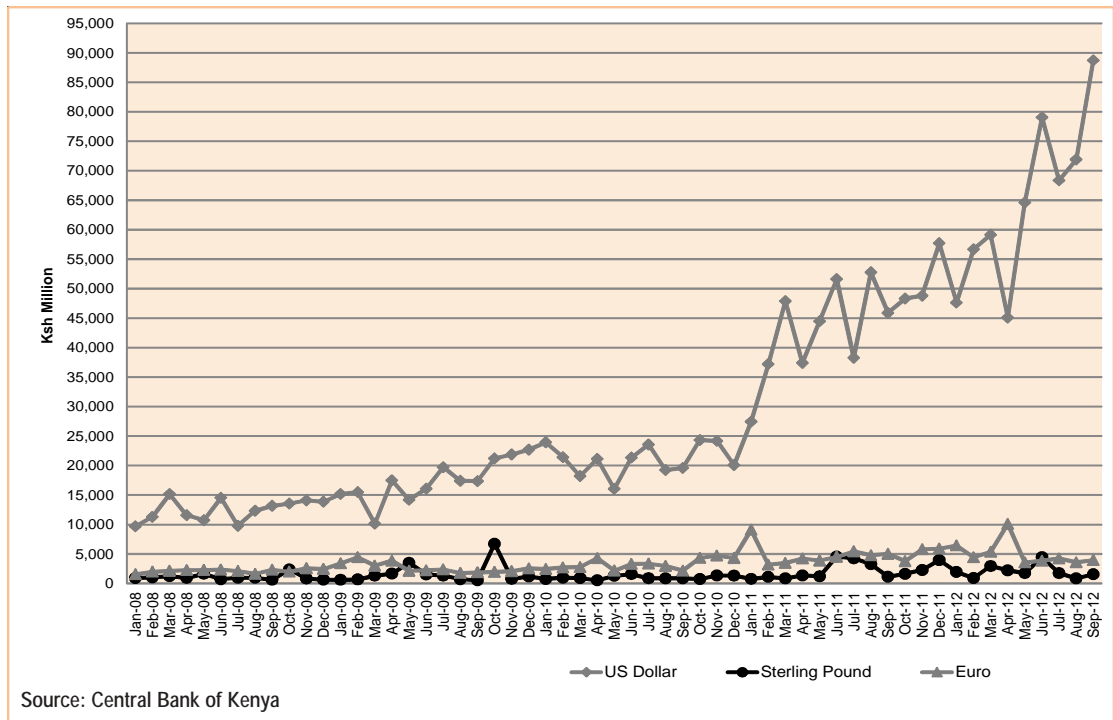


### Domestic Foreign Currency

Domestic Foreign Currency messages through KEPSS decreased by 2.65 percent from 12,429 transaction messages in August 2012 to 12,100 transaction messages in September 2012. Similarly, the corresponding value in Kenya Shillings equivalent moved in this period decreased by 9.28 percent from Ksh 135.4 billion to Ksh 122.8 billion. The US dollar denominated transactions accounted for 95.32 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 0.98 percent and 3.70 percent, respectively.



**CHART 5D: DOMESTIC FOREIGN CURRENCY CHEQUE CLEARING KENYA SHILLING EQUIVALENT FLOW THROUGH KEPSS**



## GOVERNMENT BUDGET PERFORMANCE

Central government budgetary operations in the July 2012 - September 2012 quarter of the fiscal year 2012/13 resulted in a deficit of Ksh 59.0 billion on commitment basis compared with a deficit of Ksh 20.4 billion in the same period of fiscal year 2011/12 (Table 6.1). The deficit-to-GDP ratio stood at 1.5 percent on commitment and cash basis during this period, marginally above the programmed target of 1.4 percent.

TABLE 6.1: STATEMENT OF CENTRAL GOVERNMENT BUDGETARY OPERATIONS (Ksh Bn)

	FY 2011/12	FY 2012/13		
	September Actual	September Provisional	Target	Over (+) / below(-) Target
<b>1. TOTAL REVENUE &amp; GRANTS</b>	<b>159.2</b>	<b>173.3</b>	<b>216.4</b>	<b>-43.1</b>
Revenue	156.5	172.0	211.0	-38.9
Tax Revenue	143.9	158.4	186.6	-28.1
Non Tax Revenue	3.1	3.6	7.2	-3.6
Appropriations-in-Aid	9.4	10.0	17.2	-7.2
External Grants	2.8	1.3	5.5	-4.2
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>179.6</b>	<b>232.3</b>	<b>269.6</b>	<b>-37.3</b>
Recurrent Expenses	136.5	168.1	191.2	-23.2
Development Expenses	43.2	64.2	78.4	-14.2
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-20.4</b>	<b>-59.0</b>	<b>-53.2</b>	<b>5.8</b>
As percent of GDP	<b>-0.62</b>	<b>-1.53</b>	<b>-1.38</b>	
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-20.4</b>	<b>-59.0</b>	<b>-53.2</b>	<b>5.8</b>
As percent of GDP	<b>-0.62</b>	<b>-1.53</b>	<b>-1.38</b>	
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>-5.1</b>	<b>-11.0</b>	<b>0.0</b>	
<b>7. FINANCING</b>	<b>15.2</b>	<b>48.0</b>	<b>53.2</b>	<b>-5.2</b>
Domestic (Net)	12.3	47.7	43.4	4.3
External (Net)	2.9	0.3	9.8	-9.5
Capital Receipts (privatisation)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

### Revenue

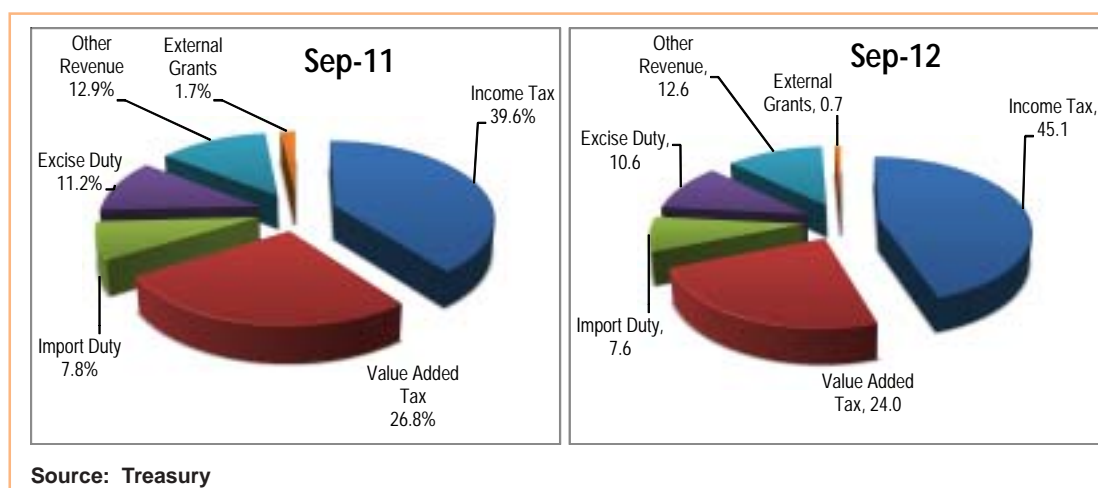
Total government revenues and grants increased by Ksh 14.1 billion, from Ksh 159.2 billion during the period July – September quarter of 2011 to Ksh 173.3 billion during the period under review. However, total government revenue and external grants underperformed by Ksh 38.9 billion and Ksh 4.2 billion respectively, with respect to the period's targeted amounts of Ksh 211.0 billion and Ksh 5.5 billion (Table 6.1). All revenue components, i.e. tax revenue, ministerial appropriations in aid, external grants and other revenue, underperformed during the period.

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Sep-11 Ksh bn	Sep-12 Ksh bn	Change
<b>1. Revenue (2+3+4)</b>	<b>156.5</b>	<b>172.0</b>	<b>15.5</b>
2. Tax Revenue	143.9	158.4	14.5
Income Tax	63.0	78.1	15.1
Value Added Tax	42.7	41.5	-1.2
Import Duty	12.4	13.1	0.7
Excise Duty	17.8	18.3	0.5
Others	8.0	7.4	-0.7
3. Appropriations-in-Aid	9.4	10.0	0.6
4. Other Revenue	3.1	3.6	0.5
<b>5. External Grants</b>	<b>2.8</b>	<b>1.3</b>	<b>-1.5</b>
<b>TOTAL RECEIPTS (1+5)</b>	<b>159.2</b>	<b>173.3</b>	<b>14.1</b>

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Tax revenue increased by Ksh 14.5 billion, or to 10.1 percent from Ksh 143.9 billion during the period July – September 2011 to Ksh 158.4 billion in July – September 2012 (Table 6.2). The increase was largely on account of income tax, which expanded by Ksh 15.1 billion (24.0 percent) during the period, but fell short of target by Ksh 7.5 billion. Import duty and excise duty increased from Ksh 12.4 billion and Ksh 17.8 billion in July – September 2011 to Ksh 13.1 billion and Ksh 18.3 billion, respectively, in the period July – September 2012. All taxes underperformed with respect to the programmed targets in September 2012.

### Expenditure and Net Lending

Government expenditure and net lending increased by Ksh 52.7 billion in July – September 2012 from Ksh 179.6 billion expended during the same period in the fiscal year 2011/12. Total expenditure for July – September 2012 comprised of Ksh 168.1 billion and Ksh 64.2 billion in recurrent and development expenditure, respectively.

Total recurrent expenditure increased by Ksh 31.6 billion, during the period under review. The largest recurrent expenditure item was salaries and wages, which amounted to Ksh 65.4 billion in July – September 2012, and constituted 38.9 percent of total recurrent expenditure. Interest on domestic debt increased by Ksh 7.8 billion to stand at Ksh 25.2 billion (15.0 percent of recurrent expenditure), during the first quarter of fiscal year 2012/13. Development expenditure increased by Ksh 21.1 billion in July – September 2012 from Ksh 43.2 billion expended in a similar period of the previous year. Overall, expenditure and net lending targets were missed by Ksh 37.3 billion of which Ksh 23.2 billion was on account of recurrent expenditure (Table 6.1).

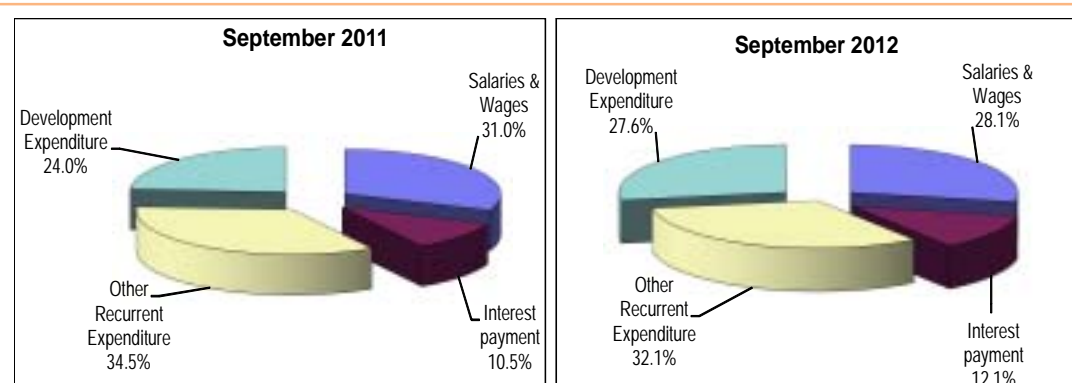
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Sep-11 Ksh bn	Sep-12 Ksh bn	Movement
<b>1.Recurrent</b>	<b>136.5</b>	<b>168.1</b>	<b>31.6</b>
Salaries & Wages	55.6	65.4	9.7
Total Interest	18.9	28.1	9.2
of which			
Domestic*	17.4	25.2	7.8
Foreign interest due	1.6	2.9	1.4
Others	61.9	74.6	12.7
<b>2. Development</b>	<b>43.2</b>	<b>64.2</b>	<b>21.1</b>
<b>TOTAL EXPENSES</b>	<b>179.6</b>	<b>232.3</b>	<b>52.7</b>

\*Includes commission and other charges paid to CBK

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

**Financing** In the July – September 2012 period, budgetary operations of the Government resulted in a financing requirement of Ksh 63.7 billion compared with Ksh 38.6 billion in the same period of fiscal year 2011/12. This was funded through domestic and external borrowing during the period, which resulted in Ksh 63.4 billion and Ksh 0.3 billion increases in domestic debt and external debt, respectively (Table 6.4).

TABLE 6.4: GOVERNMENT BORROWING REQUIREMENTS &amp; SOURCES (Ksh billion)

I. FINANCING REQUIREMENTS	Sep-11	Sep-12
1. Budget deficit	15.2	48.0
2. External debt reduction	0.0	0.0
3. Domestic debt reduction	23.4	0.0
3.1 Central Bank (incl. items in transit)	0.0	0.0
3.2 Commercial banks (net of deposits)	23.4	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	14.1
5. Adjustment to cash basis	0.0	1.6
<b>TOTAL</b>	<b>38.6</b>	<b>63.7</b>
II. FINANCING SOURCES	Sep-11	Sep-12
1. Budget surplus	0.0	0.0
2. External debt increase	2.9	0.3
3. Increase in domestic debt	20.0	63.4
3.1 Central Bank	18.4	9.8
3.2 Commercial banks	0.0	36.9
3.3 Non-bank sources	1.6	16.7
4. Reduction in GoK deposits at CBK	15.6	0.0
5. Privatisation proceeds (Net of Restructuring Costs)	0.0	0.0
<b>TOTAL</b>	<b>38.6</b>	<b>63.7</b>

Sources: Treasury and Central Bank of Kenya

**Government Borrowing from the Central Bank** At the end of the first quarter of fiscal year 2012/13, Government indebtedness to the Central Bank stood at Ksh 57.2 billion. This was Ksh 0.9 billion less than the Ksh 58.1 billion level of indebtedness at the end of September 2011. The decrease in indebtedness was largely on account of rediscounted Treasury bills and the amortization of the pre-1997 overdraft during the period.

**TABLE 6.5: GOVERNMENT INDEBTEDNESS TO THE CENTRAL BANK (Ksh billion)**

	2011	2012	Movement
	September	September	
<b>Total Credit</b>	<b>58.1</b>	<b>57.2</b>	<b>-0.9</b>
1. Overdraft	25.4	25.4	0.0
2. Rediscounted securities	1.5	1.7	0.2
Treasury bills	1.5	1.0	-0.5
Treasury bonds	0.0	0.7	0.7
3. Pre-1997 Government Overdraft at CBK	31.1	30.0	-1.1
4. IMF funds onlent to Government	0.0	0.0	0.0
5. Cleared items in transit	0.1	0.1	0.0
<b>Memorandum</b>			
Authorised overdraft limit	<b>25.4</b>	<b>25.4</b>	0.0
Amount utilised to date	25.4	25.4	0.0
Amount available	0.0	0.0	0.0

Source: Central Bank of Kenya

**Outlook for FY 2012/13** In the budget estimates for the fiscal year 2012/13, total domestic revenue is estimated at Ksh 955.0 billion, equivalent to 24.7 percent of GDP. External grants are estimated at Ksh 56.2 billion or 1.5 percent of GDP. Government expenditure is estimated at Ksh 1263.3 billion (or 32.7 percent of GDP), of which Ksh 802.7 billion (20.8 percent of GDP) will be in recurrent expenses and the rest in development expenses (Table 6.6).

**TABLE 6.6: BUDGET ESTIMATES FOR THE FISCAL YEAR 2011/12 (Ksh Billion)**

	Ksh (Bn)	% of GDP
<b>1. TOTAL REVENUE</b>	<b>1011.20</b>	<b>26.15</b>
Revenue	955.03	24.70
Tax Revenue	816.47	21.12
Non Tax Revenue	53.71	1.39
Appropriations-in-Aid	84.84	2.19
External Grants	56.18	1.45
<b>2. TOTAL EXPENSES &amp; NET LENDING</b>	<b>1,263.32</b>	<b>32.67</b>
Recurrent Expenses	802.65	20.76
Development Expenses	455.68	11.78
Civil Contingency Fund	5.00	0.13
<b>3. DEFICIT ON A COMMITMENT BASIS (1-2)</b>	<b>-252.12</b>	<b>-6.52</b>
<b>4. ADJUSTMENT TO CASH BASIS</b>	<b>1.32</b>	<b>0.03</b>
<b>5. DEFICIT ON A CASH BASIS</b>	<b>-250.80</b>	<b>-6.49</b>
<b>6. DISCREPANCY: Expenditure (+) / Revenue (-)</b>	<b>0.00</b>	<b>0.00</b>
<b>7. FINANCING</b>	<b>-250.80</b>	<b>-6.49</b>
Domestic (Net)	106.74	2.76
External (Net)	144.06	3.73

Source: Central Bank of Kenya

The overall budget deficit including grants is therefore estimated at Ksh 250.8 billion (or 6.5 percent of GDP) in 2012/13. The deficit is expected to be financed through net external borrowing of Ksh 144.1 billion and net domestic borrowing of Ksh 106.7 billion.

## DEVELOPMENTS IN PUBLIC DEBT

**Overall Debt** Kenya's public and publicly guaranteed debt amounted to Ksh 1,724.7 billion by end of the first quarter of fiscal year 2012/13 from Ksh 1,623.4 billion in June 2012, an increase of Ksh 101.3 billion. The total debt stock by end September 2012 was equivalent to 44.6 percent of GDP, while that in June 2012 was 49.3 percent of GDP. Domestic debt to GDP ratio and external debt to GDP ratio similarly declined from 26.1 percent and 23.2 percent in June 2012 to 23.9 percent and 20.8 percent, respectively, in September 2012. Domestic debt accounted for 53.5 percent of total debt during the period. In September 2012, total domestic debt increased by Ksh 63.4 billion, and was reflected in a higher stock of Treasury bonds, Treasury bills and the Government overdraft at the Central Bank. Total external debt increased by Ksh 37.9 billion, during this period (Table 7.1).

**TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)**

	Jun-11	Jun-12	Jul-12	Aug-12	Sep-12	Change 2012/13
<b>EXTERNAL***</b>						
Bilateral	257.0	246.2	243.4	258.5	269.2	23.0
Multilateral	445.3	452.9	458.9	448.0	467.0	14.0
Commercial Banks	0.0	50.5	50.5	50.6	51.1	0.6
Supplier Credits	25.0	14.8	14.6	14.7	15.1	0.3
<b>Sub-Total</b>	<b>727.3</b>	<b>764.53</b>	<b>767.39</b>	<b>771.76</b>	<b>802.46</b>	<b>37.9</b>
(As a % of GDP)	26.4	23.2	19.8	20.0	20.8	
(As a % of total debt)	48.8	47.1	46.8	46.1	46.5	
<b>DOMESTIC<sup>/</sup></b>						
<b>Banks</b>	<b>418.1</b>	<b>459.2</b>	<b>469.4</b>	<b>494.0</b>	<b>507.4</b>	<b>48.1</b>
Central Bank	39.7	47.4	63.5	51.9	58.7	11.3
Commercial Banks	378.4	411.9	405.8	442.1	448.7	36.9
<b>Non-banks</b>	<b>338.3</b>	<b>388.5</b>	<b>392.3</b>	<b>398.0</b>	<b>405.0</b>	<b>16.5</b>
Non-bank Financial Institutions	2.6	1.5	0.6	0.6	0.6	-0.9
Other Non-bank Sources	335.7	387.0	391.7	397.4	404.4	17.4
<b>Non-residents</b>	<b>7.9</b>	<b>11.0</b>	<b>10.3</b>	<b>9.9</b>	<b>9.8</b>	<b>-1.3</b>
<b>Sub-Total</b>	<b>764.2</b>	<b>858.8</b>	<b>872.0</b>	<b>901.9</b>	<b>922.2</b>	<b>63.4</b>
(As a % of GDP)	27.8	26.1	22.6	23.3	23.9	
(As a % of total debt)	51.2	52.9	53.2	53.9	53.5	
<b>GRAND TOTAL</b>	<b>1491.5</b>	<b>1623.4</b>	<b>1639.3</b>	<b>1673.7</b>	<b>1724.7</b>	<b>101.3</b>
(As a % of GDP)	54.2	49.3	42.4	43.3	44.6	

\*\*\* Includes IMF Loans

<sup>/</sup> Domestic Debt is reported on a gross basis

**Note**

From January 2001 domestic debt is reported on a gross basis, that is, without netting out government deposits and Treasury advances to parastatals. The debt is, however, net of IMF disbursements on-lent to the Government by CBK and which are considered as part of external debt.

Sources: Treasury and Central Bank of Kenya

### Domestic Debt

Total domestic debt increased by Ksh 63.4 billion during the first quarter of fiscal year 2012/13, from a stock of Ksh 858.8 billion at the end of June 2012 to Ksh 922.2 billion in September 2012. This was largely attributed to increases of Ksh 16.9 billion in Treasury bonds, Ksh 27.7 billion in Treasury bills and Ksh 18.1 billion in the Government overdraft at the Central Bank (Table 7.2).

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2011		2012						Change June-12 - Sep-12
	June	%	Jun	%	Aug	%	Sep	%	
<b>Total Stock of Domestic Debt (A+B)</b>	<b>764.2</b>	<b>100.0</b>	<b>858.8</b>	<b>100.0</b>	<b>901.9</b>	<b>100.0</b>	<b>922.2</b>	<b>100.0</b>	<b>63.4</b>
<b>A. Government Securities</b>	<b>753.9</b>	<b>98.7</b>	<b>849.0</b>	<b>98.9</b>	<b>881.0</b>	<b>97.7</b>	<b>893.6</b>	<b>96.9</b>	<b>44.6</b>
<b>1. Treasury Bills (excluding Repo Bills)</b>	<b>126.6</b>	<b>16.6</b>	<b>132.05</b>	<b>15.4</b>	<b>146.30</b>	<b>16.2</b>	<b>159.74</b>	<b>17.3</b>	<b>27.7</b>
Banking institutions	87.7	11.5	75.50	8.8	90.61	10.0	103.68	11.2	28.2
Others	38.9	5.1	56.55	6.6	55.69	6.2	56.06	6.1	-0.5
<b>2. Treasury Bonds</b>	<b>595.7</b>	<b>77.9</b>	<b>686.95</b>	<b>80.0</b>	<b>704.72</b>	<b>78.1</b>	<b>703.88</b>	<b>76.3</b>	<b>16.9</b>
Banking institutions	288.4	37.7	334.11	38.9	348.49	38.6	342.03	37.1	7.9
Others	307.3	40.2	352.84	41.1	356.23	39.5	361.85	39.2	9.0
<b>4. Non-Interest Bearing Debt</b>	<b>31.7</b>	<b>4.1</b>	<b>30.00</b>	<b>3.5</b>	<b>30.00</b>	<b>3.3</b>	<b>30.00</b>	<b>3.3</b>	<b>0.0</b>
Of which: Repo T/Bills	30.8	4.0	29.78	3.5	29.78	3.3	29.78	3.2	0.0
<b>B. Others:</b>	<b>10.29</b>	<b>1.3</b>	<b>9.83</b>	<b>1.1</b>	<b>20.91</b>	<b>2.3</b>	<b>28.57</b>	<b>3.1</b>	<b>18.7</b>
Of which CBK overdraft to Government	7.6	1.0	7.26	0.8	17.72	2.0	25.37	2.8	18.1

From January 2001 domestic debt is reported on a gross basis without netting out government deposit and Treasury advances to parastatals

Source: Central Bank of Kenya

### Treasury Bills

Treasury bill holdings excluding repos increased from Ksh 132.0 billion in June 2012 to Ksh 159.7 billion in September 2012. As a result, the proportion of Treasury bills in total domestic debt increased from 15.4 percent in June 2012 to 17.3 percent in September 2012 (Table 7.2). At the end of September 2012, commercial banks held 64.9 percent of total Treasury bills (Table 7.3).

TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

Holders	2011		2012									
	Jun	%	Mar	%	Jun	%	Jul	%	Aug	%	Sep	%
Banking Institutions	87.7	69.3	80.8	56	75.5	57.2	66.8	54.8	90.6	61.9	103.7	64.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	87.7	69.3	80.8	55.6	75.5	57.2	66.8	54.8	90.6	61.9	103.7	64.9
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	4.7	3.7	7.4	5.1	7.2	5.5	7.3	6.0	9.7	6.6	9.9	6.2
Parastatals	3.2	2.6	3.3	2.2	1.2	0.9	1.0	0.8	3.0	2.0	3.2	2.0
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	4.8	3.8	26.7	18.4	28.7	21.7	28.7	23.5	25.2	17.2	26.1	16.3
Others	26.1	20.6	27.2	18.7	19.5	14.7	18.0	14.8	17.8	12.2	16.9	10.6
<b>Total*</b>	<b>126.6</b>	<b>100.0</b>	<b>145.5</b>	<b>100.0</b>	<b>132.0</b>	<b>100.0</b>	<b>121.9</b>	<b>100.0</b>	<b>146.3</b>	<b>100.0</b>	<b>159.7</b>	<b>100.0</b>

\* Excludes repurchase order bills

Source: Central Bank of Kenya

### Treasury Bonds

Treasury bonds increased by Ksh 16.9 billion, from Ksh 687.0 billion in June 2012 to Ksh 703.9 billion at the end of September 2012. Despite the increase, the proportion of Treasury bonds in total domestic debt declined from 80.0 percent in June 2012 to 76.3 percent in September 2012 (Table 7.2). Treasury bonds held by pension funds increased from 24.0 percent in June 2012 to 24.9 percent in September 2012. Holdings by commercial banks remained unchanged at 48.6 percent of total bonds while holdings by all other holders declined during the period (Table 7.2).

TABLE 7.4: OUTSTANDING TREASURY BONDS BY HOLDER (Ksh billion)

Holders	2011		2012									
	June	%	Mar	%	Jun	%	Jul	%	Aug	%	Sep	%
Banking Institutions	290.9	48.8	331.9	48.6	335.6	48.9	337.8	48.8	349.1	49.5	342.6	48.7
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	288.4	48.4	330.4	48.3	334.1	48.6	337.2	48.7	348.5	49.5	342.0	48.6
NBFIs	2.5	0.4	1.5	0.2	1.5	0.2	0.6	0.1	0.6	0.1	0.6	0.1
Insurance Companies	77.1	12.9	84.9	12.4	85.1	12.4	85.6	12.3	85.2	12.1	85.2	12.1
Parastatals	46.6	7.8	47.6	7.0	46.1	6.7	45.3	6.5	44.5	6.3	44.4	6.3
Of which: NSSF	23.6	4.0	24.7	3.6	24.5	3.6	24.5	3.5	23.8	3.4	23.8	3.4
Building Societies	0.3	0.0	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1
Pension Funds	118.5	19.9	172.5	25.2	164.5	24.0	170.8	24.7	172.8	24.5	175.2	24.9
Others	62.2	10.4	46.0	6.7	54.9	8.0	52.9	7.6	52.5	7.5	55.8	7.9
<b>Total</b>	<b>595.7</b>	<b>100.0</b>	<b>683.6</b>	<b>100.0</b>	<b>687.0</b>	<b>100.0</b>	<b>693.0</b>	<b>100.0</b>	<b>704.7</b>	<b>100.0</b>	<b>703.9</b>	<b>100.0</b>

Source: Central Bank of Kenya

### Domestic Debt Maturity structure

Total domestic debt at the end of September 2012 amounted to Ksh 922.2 billion, which comprised Ksh 703.9 billion, Ksh 159.7 billion, Ksh 25.4 billion, Ksh 29.8 billion and Ksh 3.4 billion in Treasury bonds, Treasury bills, Government overdraft at the Central Bank, Repo Treasury bills and other domestic debt, respectively. Of these, Government securities worth Ksh 108.2 billion will fall due between October 2012 and December 2012, and will comprise Ksh 82.4 billion and Ksh 25.8 billion in Treasury bills and bonds, respectively. Treasury bill maturities in the period will comprise Ksh 48.4 billion, Ksh 32.8 billion and Ksh 1.2 billion in 91-day, 182-day and 364-day Treasury bills, respectively, while Treasury bonds maturing during this period will comprise Ksh 11.1 billion, Ksh 8.9 billion and Ksh 5.8 billion in 1-year, 2-year and 6-year discounted fixed rate bonds, respectively.

In terms of days remaining to maturity of the existing domestic debt stock, the average length of maturity declined from 5 years and 4 months in June 2012 to 5 years and 2 months in September 2012.

TABLE 7.5: DOMESTIC DEBT MATURITY STRUCTURE (Ksh billion)

		2011		2012						Change Jun-12 to Sep-12
		June	%	Jun	%	Aug	%	Sep	%	
Treasury bills	91-Day	69.1	9.0	24.3	2.8	35.7	4.1	47.1	5.4	22.8
	182-Day	22.5	2.9	75.7	8.8	72.2	8.3	70.0	8.0	-5.6
	364-Day	34.9	4.6	32.1	3.7	38.5	4.4	42.6	4.9	10.5
Treasury Bonds	1-Year	0.0	0.0	51.5	6.0	51.5	5.9	51.5	5.9	0.0
	2-Year	73.0	9.6	86.5	10.1	102.8	11.8	90.0	10.3	3.6
	3-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4-Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	5-Year	114.6	15.0	115.3	13.4	118.7	13.6	109.5	12.6	-5.8
	6-Year	70.8	9.3	57.4	6.7	57.4	6.6	57.4	6.6	0.0
	7-Year	24.3	3.2	22.5	2.6	22.5	2.6	22.5	2.6	0.0
	8-Year	25.7	3.4	17.6	2.0	17.6	2.0	17.6	2.0	0.0
	9-Year	27.7	3.6	25.4	3.0	18.2	2.1	18.2	2.1	-7.2
	10-Year	91.4	12.0	95.7	11.1	101.0	11.6	101.0	11.6	5.3
	11-Year	4.0	0.5	4.0	0.5	4.0	0.5	4.0	0.5	0.0
	12-Year	20.1	2.6	63.5	7.4	63.5	7.3	63.5	7.3	0.0
	15-Year	75.4	9.9	75.4	8.8	75.4	8.7	96.5	11.1	21.1
	20-Year	29.7	3.9	29.7	3.5	29.7	3.4	29.7	3.4	0.0
25-Year	20.2	2.6	20.2	2.4	20.2	2.3	20.2	2.3	0.0	
30-Year	18.8	2.5	22.1	2.6	22.1	2.5	22.1	2.5	0.0	
Repo T bills		30.78	4.0	29.2	3.4	29.8	3.4	29.8	3.4	0.6
Overdraft		7.57	1.0	7.3	0.8	17.7	2.0	17.7	2.0	10.5
Other Domestic debt		3.60	0.5	3.3	0.4	3.4	0.4	11.1	1.3	7.7
<b>Total Debt</b>		<b>764.2</b>	<b>100.0</b>	<b>858.83</b>	<b>100.0</b>	<b>901.93</b>	<b>100.0</b>	<b>922.20</b>	<b>100.0</b>	

Source: Central Bank of Kenya

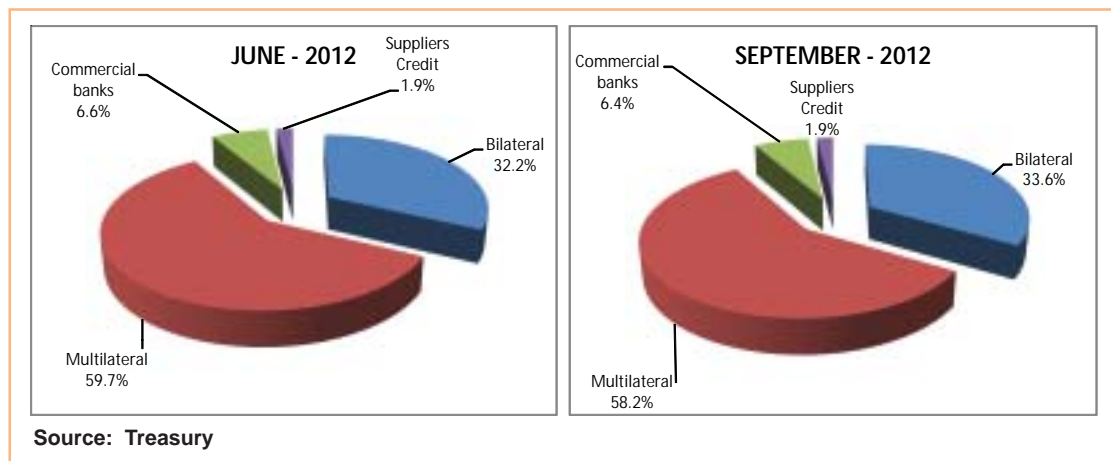


**External Debt**

Kenya's external debt increased by Ksh 37.9 billion from Ksh 764.5 billion (USD 9.1 billion) in June 2012 to Ksh 802.5 billion (USD 9.4 billion) at the end of September 2012 (Table 7.1). This followed increases of Ksh 23.0 billion, Ksh 14.0 billion, Ksh 0.6 billion and Ksh 0.3 billion respectively in the stocks of debt from bilateral sources, multilateral sources, commercial bank loans and suppliers' credits, during the period. The increase in bilateral debt stock was largely attributed to disbursements from China, amounting to Ksh 55.1 billion, for financing the national roads by-pass projects, while that in multilateral debt stock was due to increases in loans from International Development Association (IDA) and Africa Development Bank (ADB) during the period. The bulk of external debt was owed to multilateral creditors, with IDA accounting for 64.0 percent of the total external debt. The increase in debt owed to commercial banks and that acquired through suppliers' credits during the period was as a result of exchange rate revaluations during the period.

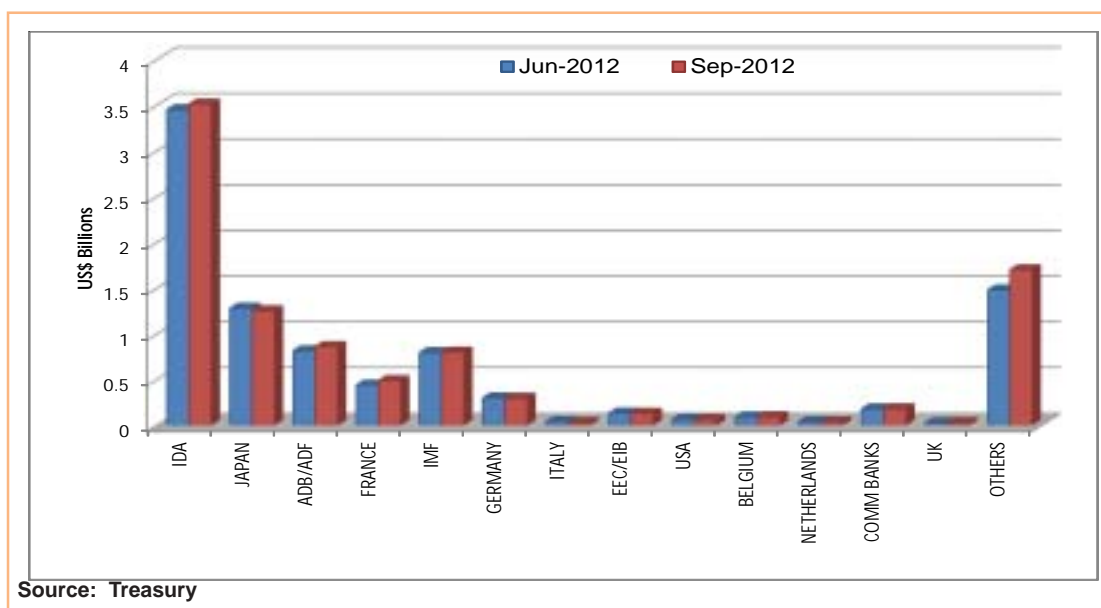
**Composition of External Debt by Creditor**

Kenya's official creditors, the multilateral and bilateral lenders, accounted for 91.2 percent of total external debt in September 2012. Further disbursements by the Exim Bank of China during the period increased bilateral debt proportions from 31.8 percent of total external debt in June 2012 to 33.6 percent in September 2012. Exchange rate revaluations resulted in a reduction of the percentage holdings by multilateral creditors from 59.7 percent in June 2012 to 58.2 percent in September 2012. In addition, debt owed to commercial banks declined to 6.4 percent of external debt, while that extended through supplier's credits remained constant at 1.9 percent of total debt in September 2012 (Chart 7A).

**CHART 7A: COMPOSITION OF EXTERNAL DEBT**

Debt owed to IDA, Kenya's largest multilateral lender, amounted to USD 3.5 billion or 37.2 percent of total external debt while that owed to Japan, Kenya's largest bilateral lender amounted to USD 1.2 billion at the end of September 2012 (Chart 7B).

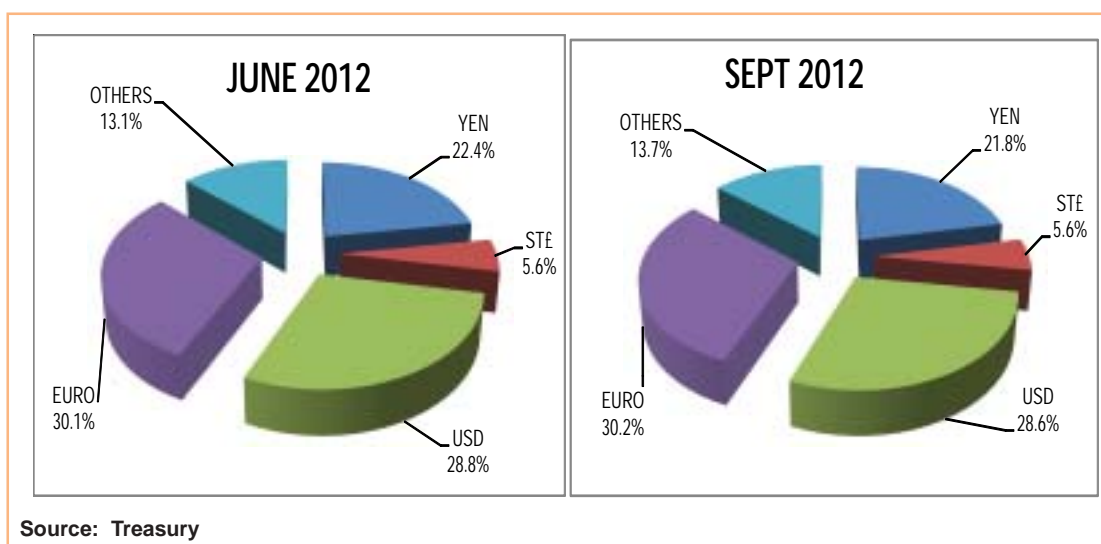
**CHART 7B: EXTERNAL DEBT BY CREDITOR**



**Currency Composition of External Debt**

The bulk of external debt is held in the Euro and the US dollar. Debt held in ‘other currencies’, which includes currencies from non-Paris club countries such as Korea, China, Kuwait and Saudi Arabia, increased from 13.1 percent of total debt in June 2012 to 13.7 percent in September 2012. Debt held in Japanese Yen and USD declined while that held in the Euro increased to 30.2 percent of total debt in September 2012 (Chart 7C).

**CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY**



**Public Debt Service**

Cumulative Government expenditure on interest and other charges on domestic debt for the 2012/13 fiscal year to September 2012 amounted to Ksh 25.2 billion, compared with Ksh 17.0 billion incurred for the same period of the previous fiscal year. This comprised Ksh 17.4 billion, Ksh 6.3, Ksh 0.7 billion and Ksh 0.8 billion on interest and other charges on Treasury bonds, Treasury bills, Government overdraft at the Central Bank and the pre-1997 Government overdraft, respectively. External

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debt service for the period July 2012 – September 2012 amounted to Ksh 11.2 billion comprising Ksh 8.4 billion in principal repayments and Ksh 2.8 billion in interest cost.

**Outlook for  
the FY 2012/  
13** In the fiscal year 2012/13, external debt is estimated at Ksh 904.9 billion while gross and net domestic debt are estimated at Ksh 933.1 billion (24.1 percent of GDP) and Ksh 799.3 billion ( 20.7 percent of GDP), respectively.

## ACTIVITY IN THE STOCK MARKET

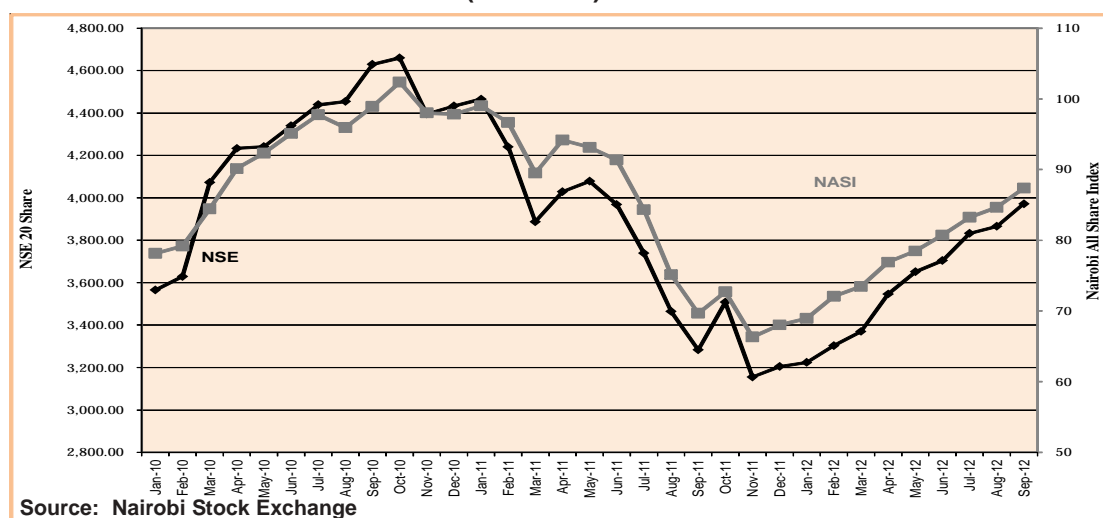
Capital markets performance was robust in September 2012, with all key market indicators gaining. As indicated in Table 8.1 and Chart 8A, all equity market indices have been increasing since January 2012. Equity turnover rose on account of increased supply of shares. Market capitalization maintained its strong rally to stay above the trillion shillings mark. The bonds market remained active posting a 10.34 percent rise in turnover over the period.

### Equity Market

NSE 20 Share Index gained 275 basis points to level 3972.03 points in September from 3865.76 points in August 2012. Similarly, NASI gained 321 basis points, rising to 87.38 points from 84.66 points in the same period. Market Capitalization, which measures total shareholders' wealth at NSE, closed the month at Ksh 1,155.99 billion from Ksh 1,117.39 billion in August 2012.

Equity turnover increased to Ksh 9,781.50 million in September 2012 from Ksh 5,680.73 million in August 2012. Turnover Ratio, a measure of market liquidity remained relatively stable, gaining 16 basis points to reach 0.60 percent from 0.44 percent in August 2012 as the number of shares traded increased to 470 million from 339 million in the previous month.

CHART 8A: NSE 20 SHARE INDEX (1966=100)



Net foreign investor participation, measured by percent share in equity turnover, increased to 51.88 percent from 49.34 percent in August 2012. Foreign investor purchases were 68.67 percent of total equity turnover in September compared to 58.56 percent in August 2012, implying concentration on the buy side of the equities market. Local investors' participation has remained low compared to participation by the foreign investors.

### Leading Sectors & Counters

Telecommunication and Technology sector dominated trading, with 165.26 million shares, which accounted for 35.14 percent of the entire market. Banking and Manufacturing and Allied sectors followed with 138.41 million shares or 29.43 percent

and 51.48 million shares or 10.95 percent of the market, respectively. Safaricom, Kenya Commercial Bank Ltd and CIC Insurance counters were most active, with 164.31 million, 49.84 million shares and 37.36 million shares traded, respectively.

**TABLE 8.1: SELECTED STOCK MARKET INDICATORS**

Period (Month)	NSE 20 Share Index (1966=100)	NASI (2008=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)	% of FP to Equity Turnover	% of FS to Equity Turnover	% overall net FP to Equity Turnover
Jan-11	4,464.92	99.02	725.05	9,462.18	1,192.28	19,891.30	52.29%	31.29%	41.79%
Feb-11	4,240.18	96.66	335.25	6,215.78	1,176.85	49,040.10	38.74%	28.73%	33.74%
Mar-11	3,887.07	89.50	469.03	7,984.12	1,090.23	40,116.05	40.41%	20.97%	30.69%
Apr-11	4,029.23	94.18	497.18	7,883.04	1,154.92	33,376.20	40.09%	78.45%	59.26%
May-11	4,078.10	93.15	410.00	8,405.61	1,144.00	33,646.10	34.61%	74.27%	54.44%
Jun-11	3,968.12	91.36	411.00	7,047.50	1,121.00	69,415.48	50.05%	72.71%	61.38%
Jul-11	3,738.46	84.32	434.00	7,132.18	1,050.00	33,414.55	62.91%	46.47%	54.69%
Aug-11	3,465.02	75.15	551.88	6,109.01	950.41	44,111.70	55.82%	45.65%	50.74%
Sep-11	3,284.06	69.68	582.39	5,453.00	885.57	36,112.40	48.52%	38.71%	43.62%
Oct-11	3,507.34	72.71	570.14	4,466.00	927.00	34,737.60	72.59%	56.49%	64.54%
Nov-11	3,155.46	66.33	398.90	3,928.00	854.68	26,691.60	71.79%	71.00%	71.40%
Dec-11	3,205.02	68.03	336.50	3,973.00	868.24	24,999.05	68.19%	44.65%	56.42%
Jan-12	3,224.00	69.00	351.00	3,544.00	880.00	24,513.50	31.55%	54.46%	43.00%
Feb-12	3,303.75	72.07	342.00	3,493.00	920.00	27,121.66	57.23%	34.47%	45.85%
Mar-12	3,366.89	73.47	366.00	6,386.00	940.00	47,811.97	60.44%	18.93%	39.69%
Apr-12	3,546.66	76.91	526.15	7,640.23	985.00	35,503.62	64.29%	41.11%	52.70%
May-12	3,650.85	78.48	543.29	8,815.35	1,005.19	47,343.28	58.32%	45.85%	52.09%
Jun-12	3,703.94	80.75	385.51	6,214.24	1,048.72	28,259.68	62.44%	36.06%	49.25%
Jul-12	3,832.42	83.26	383.61	6,037.89	1,098.90	34,170.82	51.90%	38.19%	45.05%
Aug-12	3,865.76	84.66	338.92	5,680.73	1,117.39	86,918.78	58.56%	40.12%	49.34%
Sep-12	3,972.03	87.38	470.26	9,781.50	1,155.99	95,866.77	68.67%	35.08%	51.88%

Source: Nairobi Stock Exchange

### FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures performance of 15 largest stocks ranked by market capitalization at NSE and FTSE NSE Kenya 25 Index that measures performance of 25 most liquid stocks at the exchange, closed the month at the higher levels of 115.97 points and 118.44 points in September 2012 from 112.45 points and 114.83 points in August 2012, respectively. The two indices hit the highest level since their launch in November 2011.

### Bond Market

Bonds turnover was up 10.30 percent, corresponding deals declined to 979 in September 2012 from 1,055 deals in August 2012. Bonds worth Ksh 95.87 billion were traded in September 2012 compared to Ksh 86.92 billion transacted in August 2012. This was the highest monthly secondary market value traded in the bond market, surpassing the June 2010 value of Ksh 95.22 billion. The Infrastructure Bond IFB1/2011/012 dominated trading, with 28.62 percent of total turnover, with yields range of 9.10 - 12.50 percent against a coupon rate of 12 percent.

**STATEMENT OF FINANCIAL POSITION OF THE  
CENTRAL BANK OF KENYA  
(KENYA SHILLINGS MILLION)**

	Sep-12	Jun-12 Audited	Sep 12/Jun 2012 Movement
<b>ASSETS</b>			
Balances due from Banking Institutions and Gold holdings	461,150	437,961	23,189
Funds held with International Monetary Fund	1,601	2,200	(599)
Items in the course of collection	195	333	(138)
Advances to commercial banks	1,722	9,973	(8,251)
Loans and Advances	29,280	10,817	18,463
Other Assets	1,894	2,224	(330)
Retirement Benefits Assets	2,193	2,193	0
Property and Equipment	11,153	12,083	(930)
Prepaid operating lease rentals	0	0	0
Intangible Assets	1,135	1,412	(277)
Due from Government of Kenya	30,303	30,874	(571)
<b>TOTAL ASSETS</b>	<b>540,626</b>	<b>510,070</b>	<b>30,556</b>
<b>LIABILITIES</b>			
Currency in Circulation	161,862	159,216	2,646
Repos sold to Banks	22,019	35,673	(13,654)
Deposits	193,620	160,642	32,978
International Monetary Fund	103,851	101,868	1,983
Other Liabilities	1,460	1,755	(295)
Provisions	67	149	(82)
<b>TOTAL LIABILITIES</b>	<b>482,879</b>	<b>459,303</b>	<b>23,576</b>
<b>EQUITIES AND RESERVES</b>	<b>57,747</b>	<b>50,767</b>	<b>6,980</b>
Share capital	5,000	5,000	0
General Reserve Fund	36,857	36,857	0
Period Surplus	6,980	0	6,980
Asset Revaluation	7,410	7,410	0
Dividends Payable	1,500	1,500	0
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>540,626</b>	<b>510,070</b>	<b>30,556</b>

Source: Central Bank of Kenya

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## NOTES ON THE FINANCIAL POSITION

**Assets** **Balances due from Banking institutions and Gold holdings** category consist of foreign reserves held in external current accounts, deposits and special/projects accounts, foreign travelers cheques, Domestic Foreign Currency Clearing Accounts, Gold, Special Drawing Rights and RAMP securities invested with World Bank. The category increased by Ksh 23,189 million to Ksh 461,150 million in September 2012 from Ksh 437,961 million in June 2012.

**Items in course of collection** represent the value of clearing instruments which are held by the Bank, while awaiting clearing by respective commercial banks. The balances as at September 2012 were Ksh 195 million, a decrease of 138 million from Ksh 333 million as at June 2012.

**Advances to commercial banks** are balances of money lend by Central Bank to commercial banks through reverse Repo (injection of liquidity) for a short duration of up to 7 days only and the rediscounted Treasury bills and bonds by commercial banks. The balance outstanding decreased by Ksh 8,251 million to Ksh 1,722 million in September 2012 from Ksh 9,973 million in June 2012.

**Loans and Advances** class of asset includes mainly outstanding balances on advances to commercial bank under the Overnight Loan Facility (OLF) Window, Government overdraft and IMF fund on-lent to Government. The balances increased by Ksh 18,463 million to Ksh 29,280 million in September 2012 from Ksh 10,817 million in June 2012.

**Other Assets** largely consist of prepayments and sundry debtors, and deferred currency expense. Other assets decreased by Ksh 330 million to Ksh 1,894 million in September 2012 from Ksh 2,224 million in June 2012.

**Due from Government of Kenya** liability category arose from overdrawn accounts which were converted to a long term debt with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit lending to GoK to 5 percent of GoK audited revenue. The change in the balances represents partial payment of the loan.

**Liabilities** **Currency in circulation** increased by Ksh 2,646 million to Ksh 161,862 million in September 2012 from Ksh 159,216 million in June 2012.

**Deposits** liability represents deposits held by Government of Kenya, local commercial bank deposit, other public entities and project accounts and local banks' forex settlement accounts. The balances increased by Ksh 32,978 million to Ksh 193,620 million in September 2012 from Ksh 160,642 million in June 2012.

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**Amount due to International Monetary Fund** represents the Banks obligations to the IMF. The balances increased to Ksh 103,851 million in September 2012 from Ksh 101,868 million in June 2012.

**Other liabilities and provisions** include net impersonal accounts, sundry creditors, foreign exchange bureaus deposits and suspense accounts. The balance decreased by Ksh 295 million to Ksh 1,460 million in September 2012 from Ksh 1,755 million in June 2012.

**Equities and reserves** increased by Ksh 6,980 million to Ksh 57,747 million in September 2012 from Ksh 50,767 million in June 2012 reflecting an increase in the General Reserve Fund of Ksh 36,857 million.